

# NOMINATION OF PHILIP LADER

---

Y 4. G 74/9: S. HRG. 103-535

Nomination of Philip Lader, S.Hrg....

**HEARING**

BEFORE THE

## COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

NOMINATION OF PHILIP LADER TO BE DEPUTY DIRECTOR FOR MAN-  
AGEMENT, OFFICE OF MANAGEMENT AND BUDGET

MAY 25, 1993

Printed for the use of the Committee on Governmental Affairs

CHIEF OF DOCUMENTS  
DEPOSITORY

JUL 28 1994

BOSTON PUBLIC LIBRARY  
MEDICAL DOCUMENTS DEPARTMENT

U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1994

68-582 cc

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-044314-8



103

S. Hrg. 103-535

# NOMINATION OF PHILIP LADER

---

Y 4. G 74/9: S. HRG. 103-535

Nomination of Philip Lader, S.Hrg....

HEARING

BEFORE THE

## COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

NOMINATION OF PHILIP LADER TO BE DEPUTY DIRECTOR FOR MAN-  
AGEMENT, OFFICE OF MANAGEMENT AND BUDGET

MAY 25, 1993

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE  
SUPERINTENDENT OF DOCUMENTS  
CONGRESSIONAL SALES OFFICE

JUL 28 1994

BOSTON PUBLIC LIBRARY  
U.S. GOVERNMENT PRINTING OFFICE  
SUPERINTENDENT OF DOCUMENTS  
CONGRESSIONAL SALES OFFICE

U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1994

68-582 cc

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402  
ISBN 0-16-044314-8

## COMMITTEE ON GOVERNMENTAL AFFAIRS

JOHN GLENN, Ohio, *Chairman*

SAM NUNN, Georgia

CARL LEVIN, Michigan

JIM SASSER, Tennessee

DAVID PRYOR, Arkansas

JOSEPH I. LIEBERMAN, Connecticut

DANIEL K. AKAKA, Hawaii

BYRON L. DORGAN, North Dakota

WILLIAM V. ROTH, Jr., Delaware

TED STEVENS, Alaska

WILLIAM S. COHEN, Maine

THAD COCHRAN, Mississippi

JOHN MCCAIN, Arizona

Leonard Weiss, *Staff Director*

Doris M. Clanton, *Assistant Counsel*

Franklin G. Polk, *Minority Staff Director and Chief Counsel*

Susanne T. Marshall, *Minority Deputy Staff Director*

Michal Sue Prosser, *Chief Clerk*

(II)

# CONTENTS

---

Opening statements:	Page
Senator Glenn .....	1
Senator Levin .....	11
Senator Roth .....	14

## WITNESSES

TUESDAY, MAY 25, 1993

Hon. Strom Thurmond, U.S. Senator from the State of South Carolina .....	3
Hon. Ernest F. Hollings, U.S. Senator from the State of South Carolina .....	4
Philip Lader, nominated to be Deputy Director for Management, Office of Management and Budget .....	6
Biographical and financial information .....	29
Responses to prehearing questions .....	36



## NOMINATION HEARING

---

TUESDAY, MAY 25, 1993

U.S. SENATE,  
COMMITTEE ON GOVERNMENTAL AFFAIRS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 9:35 a.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, Roth, and Stevens.

Staff Present: Doris Clanton, David Plocher, Mark Goldstein, Deborah Cohen (Senator Glenn); Susanne Marshall, John Mercer (Senator Roth).

### OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. Good morning. Today the Committee on Governmental Affairs meets to consider the nomination of Philip Lader to be Deputy Director for Management of the Office of Management and Budget.

This is without a doubt a critical time for the management of the Federal Government. The American people are demanding that we overhaul the way Washington spends tax dollars and delivers public services. Hearing that call, President Clinton promised to reinvent Government, and he has begun an NPR, National Performance Review, under the direction of Vice President Gore, to recommend concrete changes to improve Federal effectiveness. We have already had a couple of meetings with the Vice President in that regard.

The President's leadership in this area is very important. Better Federal management is a tough but critical job, and it will not be successful without the personal commitment and involvement of White House and Cabinet-level officials.

We have some experience with this. As Chair of the Governmental Affairs Committee, I have pushed for many reforms. We have put through the Inspectors General Act; the Chief Financial Officers Act; the Federal Managers' Financial Integrity Act, and this year, S. 20, the Performance Measurement Results Act. And I have seen how hard it is to get agencies to actually change their ways.

I would add that this has been a bipartisan effort with my friend from Delaware, the ranking minority member of the Committee, Senator Roth.

I have also seen how the "M" in OMB was neglected in favor of the budget side—a problem of inaction that contributed to a considerable amount of agency waste, fraud, and abuse. I told Leon Pa-

netta when he was before us, Mr. Lader, as I think you are aware, that the "M" in OMB has too often stood for "moribund" instead of "management," and we need to change that whole process.

There is much that OMB can and should be doing to improve Federal management. OMB is essential to effective implementation of the CFOs Act and the other reforms developed by this Committee. These laws provide OMB and the agencies the principal tools—and they are just that, tools—by which the Federal Government can be held accountable to the public, but those tools have to be used.

By ensuring that these laws are faithfully executed, OMB can do much to restore the credibility of Government in the eyes of the citizens. Mr. Lader has a key role in this effort. His position as Deputy Director for Management was expressly created by the CFO Act to elevate the "M" in OMB and give a single point of responsibility under the Director for all of OMB's management duties.

Mr. Lader will also play a major followup role once the National Performance Review makes its recommendations in September. Efforts to make Government more responsive and accountable, to make it more entrepreneurial and customer-driven, customer-friendly, will not be accomplished easily. The 6 months spent on coming up with proposals is relatively simple compared to the long-term commitment and leadership needed from the President and his Cabinet in driving real change.

In addition to advising the President and the OMB Director on management matters, the Deputy Director for Management's role includes overseeing the Office of Federal Financial Management, and the Office of Information and Regulatory Affairs—which Ms. Sally Katzen, who appeared before the Committee last week, will head when confirmed—and the Office of Federal Procurement Policy. These are all enormously important tasks, Mr. Lader, and we look forward to your leadership in making the Government more effective in each of these areas.

Mr. Lader has a broad educational background. He is a graduate of Duke University, the University of Michigan, Oxford University in England, and Harvard Law School.

In his professional career, Mr. Lader has been a university president, a private sector entrepreneur, and is the founder along with his wife of the now famous Renaissance Weekends. He has also been involved in State Government issues, serving in several posts under then Governor Riley in South Carolina.

I must also mention that Committee rules require that an inquiry be conducted into the experience, qualifications, suitability and integrity of nominees. The Committee has received from the nominee financial statements as well as detailed information on his educational background, employment record, and professional achievements.

In addition, the nominee has responded in writing to prehearing questions submitted by the Committee concerning the duties and responsibilities of the position to which he has been nominated. Copies of the biographical information and prehearing responses will be placed in the record as part of this hearing and are available upon request at the Committee office across the hall. The fi-



financial statements are available for inspection by the public in the Committee office.

Committee investigators have reviewed the nominee's biographical and financial information. In addition, staff has examined the financial disclosure reports submitted by the Office of Government Ethics and the OMB Ethics Officer to assure that no conflicts of interest are present. Those letters will also be included in the hearing record.

I, as Committee Chairman, and my distinguished colleague, Senator Roth, the ranking minority member, have reviewed the FBI background investigation reports on the nominee and found nothing to bring to the attention of the other Committee members.

We are honored to have two presenters with us this morning, the two distinguished Senators from South Carolina, and we are glad to recognize them for any remarks they may have.

Senator Thurmond.

### **TESTIMONY OF THE HON. STROM THURMOND, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA**

Senator THURMOND. Thank you very much, Mr. Chairman.

Mr. Chairman, I have an Antitrust Subcommittee meeting going on at this time, and as soon as I say a few words, if you would excuse me, I'll go ahead.

Chairman GLENN. That's fine.

Senator THURMOND. I am very pleased to be here to introduce Mr. Philip Lader, President Clinton's nominee to be Deputy Director for Management of the Office of Management and Budget.

Mr. Lader is from Hilton Head, South Carolina. We are proud to claim him. His lovely wife Linda Lader, and his two pretty daughters, Mary Catherine and Whitaker, are present today.

Mr. Lader is a capable man who is highly regarded among his peers. He is an attorney who was educated at Duke University, the University of Michigan, Oxford, and Harvard Law School.

Mr. Lader's background and accomplishments in business and academic management prove that he is well-qualified to serve as Deputy Director for Management of OMB. He served as executive vice president of a multi-billion-dollar holding company and as president of Sea Pines Company, a developer of recreational communities. He was president of Australia's first private university, Bond, and Winthrop College, now Winthrop University, in Rock Hill. And I might say I had the occasion of knowing him well when he was president of Winthrop; he did a fine job there and was held in high esteem.

He was also president of Business Executives for National Security. He is the founder and host of Renaissance Weekends, which brings together experienced individuals to discuss issues relevant to our country today.

Mr. Lader is a man of integrity, ability and dedication. He possesses the temperament and experience necessary to serve in the position for which he has been nominated. Therefore, I am pleased to recommend Philip Lader to the members of the Committee on Governmental Affairs to fill the position for which he has been nominated. I feel certain that he will perform his duties in a highly competent manner.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much, Senator Thurmond.

Senator THURMOND. If you'll excuse me now, I'll go ahead.

Chairman GLENN. Senator Hollings.

# **TESTIMONY OF THE HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA**

Senator HOLLINGS. Thank you very much, Mr. Chairman, Senator Stevens. It is an honor and pleasure for me also to present Phil Lader to the Committee this morning. I think the Chairman and Senator Stevens have both met Phil's wife Linda, and his daughters, Mary Catherine and Whitaker, and of course, Linda's father, the LeSourds, and her brother and sister-in-law.

Phil is already known well as the creator and impresario of the Renaissance Weekend, but I don't want to belabor that point. I am here to introduce Phil as the Renaissance Man, a man who has distinguished himself as a lawyer, a politician, a businessman, an academic, and a man of ideas. I am also here to introduce a man who embodies the American dream.

Phil Lader was born in Queens, New York, of immigrant parents; his father came to America from the Ukraine and worked as a short order cook. His mother, of French and Italian background, emigrated from North Africa.

Early on, Phil distinguished himself academically. He was president of his class at Duke University, where he graduated in 1966. He earned his master's at the University of Michigan in 1968, studied at Oxford and then earned a law degree at Harvard in 1972.

Notwithstanding that impressive academic background and his ease in the world of ideas, no one would mistake Phil Lader for an ivory tower intellectual.

I recall Sam Rayburn's remarks to Lyndon Johnson in the early days of the Kennedy administration, when Lyndon was visiting with his old friend Sam in the Speaker's office, and Lyndon was bragging about the best and brightest, and how all the brains and talent were being corralled here in Washington. Mr. Sam turned to him and he said, "Lyndon, I'd feel a damn sight better if one of them had run for sheriff."

Well, Phil has run for sheriff, for high sheriff, the Governor of South Carolina, a very respectable and creditable statewide campaign, and he operates in the real world. As a businessman, he served as president of the Sea Pines Company in Hilton Head from 1979 to 1983, and later managed the real estate of Sir James Goldsmith's farflung corporate empire.

As president at Winthrop in South Carolina and Bond University in Australia, Phil earned a reputation for injecting get-up-and-go into institutions with iron-poor blood. Most recently, during his 18-month tenure at Bond University, he transformed a \$25 million deficit into an operation in the black, increased the enrollment by one-third, raised the academic standards, and graduated the school's first Rhodes Scholar.

So Phil has a special talent for what businesspeople call "institutional turnaround situations," and nowhere is that talent more needed than in the Federal Government.

President Clinton has tapped Phil as the senior administration official directly responsible for cutting waste and inefficiency in Government operations. In the campaign to reinvent Government, Phil Lader is designated as the chief "reinventor," not just to root out waste in Government, but to bring quality into public service.

I can tell you from personal experience that Phil Lader is superbly qualified for this challenge. He is qualified by professional experience and by temperament. He has a unique ability to bridge differences and bring people together, and not least of all, of course, he has the friendship and confidence of the President of the United States.

I'd be glad to try to answer any questions, but otherwise, Mr. Chairman, like you, I have a mark-up at 10 o'clock.

Chairman GLENN. We all have more meetings than we can say Grace over. Thank you very much, Senator Hollings. We appreciate it very much.

Senator HOLLINGS. Thank you very much.

Chairman GLENN. I was remiss in asking whether Senator Stevens had any remarks before I went to our witnesses here.

Senator Stevens, I am sorry.

Senator STEVENS. Thank you very much. No, I did not have an opening statement. I appreciate the fact that Senator Hollings and Senator Thurmond had committees to go to. As a matter of fact, I will have to join my friend from South Carolina at that meeting, so I am going to leave as well.

I have known Mr. Lader, and I am pleased to see that as a friend of the President, he has shown that friendship by taking on a very difficult task. We look forward to working with you, Phil.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Stevens.

We also have a letter from Senator Larry Pressler, which I'll just read a little. He says he has known Mr. Lader for over a quarter century, and they were together at Harvard Law. "Phil has not requested me to send a letter. However, I know he is before your Committee today, and I wanted to write on his behalf. Phil is one of the most outstanding and decent individuals I know. I am confident he will do an excellent job for our country as Deputy Director for Management for the Office of Management and Budget. His integrity is beyond reproach. I am sure his nomination is assured. If any questions, please give me a call and let me say more. Larry Pressler."

Mr. Lader, we require at confirmation hearings that it be sworn testimony, so if you'll rise and raise your right hand. Do you swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LADER. I do.

Chairman GLENN. I think Senator Hollings has already taken care of introducing your family and guests; I was going to ask you to do that, but I believe he named them all, so we will bypass that.

I also have several questions we are required to ask of all nominees, and I will begin those now.

No. 1, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?



Mr. LADER. No, sir.

Chairman GLENN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. LADER. No, sir.

Chairman GLENN. If confirmed, do you agree without reservation to appear and testify before any duly-constituted committee of the Congress?

Mr. LADER. Yes, sir.

Chairman GLENN. I'm sorry. I have omitted your statement and was going right to questions. I am moving along a little too rapidly here this morning.

We are pleased to hear any statement you might have. Go ahead.

**TESTIMONY OF PHILIP LADER, NOMINATED TO BE DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET**

Mr. LADER. Let me offer these remarks, sir.

Let me thank this Committee's members and staff especially for the many personal kindnesses shown me during this confirmation process. If my wife's due diligence during our courtship had been so thorough, my two daughters might not have been here today.

I appreciate my home-State Senators' generous introductions, but let me especially thank them for their two decades of friendship. Senator Thurmond has taught me the incredible power of longevity. When I recently asked him if I could attend his 100th birthday party, he told me, "No question about it. Just be sure to eat your vegetables and get plenty of exercise." And my junior Senator has taught me among other things that being junior, even for 27 years, in this chamber doesn't necessarily keep one from accomplishing a great deal.

My greatest appreciation must be expressed to my wife and to my late parents and aunt, without whose selfless support I would not have had most of the opportunities in my life.

When the President first discussed this position with me, I shared with him my desire to be of service to his Administration in whatever way, in or out of Government, he believed I could contribute most meaningfully. His commitment to improving the Federal Government's management, to making it more accountable to the American citizens, to streamlining programs and systems—in addition to this Committee's emphasis on the "management" in OMB—makes this job central to the Government-wide mandate for change.

I am honored by the President's having nominated me to this post.

These objectives can only be achieved with the efforts of the Federal work force. Since the inauguration, I have been deeply impressed by the professionalism and dedication of the OMB staff and other public servants with whom I have had occasion to work.

As the Senator has mentioned, I have devoted 20 years to real world, hands-on, practical management challenges, in business, academe and nonprofits, here and abroad. Responsible for operations in diverse fields, I have had to make tough management,

budget, and personnel decisions. During these past two decades, America's private sector has certainly, to a greater degree than the Federal Government, redefined missions, reorganized for results, and adapted to new public demands. Some of these management and budget practices should be adapted to and embraced by the Federal Government.

If confirmed, Mr. Chairman, I would serve the President and assist the Director of the Office of Management and Budget to that end—the continuing improvement of management of the executive branch of the Federal Government.

Thank you for this opportunity.

Chairman GLENN. Thank you very much, Mr. Lader.

We are all strong supporters of management improvement. That is why I pushed through this Committee for expansions in the Inspectors General Act and the Chief Financial Officer Act. Those are management procedures, and improving management procedures is not an end in itself. The real goal and the only goal is getting results—getting Federal agencies to be accountable for their progress and accountable for the taxpayers' money that they spend. And your job as OMB Deputy Director for Management is to make sure the management is accountable for producing results.

Many of these agencies seem to have the same problems festering year after year after year without adequate corrective actions. We followed that through with the high-risk lists, with the transition reports, and with things that seemed to go on year after year after year.

What do you think it takes to get people to move—just more authority for your position and for Leon Panetta? What does it take?

Mr. LADER. It certainly includes that. But let me preface my response, Mr. Chairman, by observing a comment made by one of my heroes, Sir John Templeton, the great financial advisor and money manager. He said that perhaps the most inaccurate phrase in the English language is: "This time, it will be different."

Let me not suggest to you or to the other members of this Committee and your staff that simply a new cast of characters at OMB will by itself make this difference. I am very much aware of the incredible challenges in toughening agency management processes and the execution and implementation of programs. But I do believe there are some things that will be different in this Administration.

For example, under the CFOs Act as it moves toward its full implementation, there are more teeth not only in the position of the Deputy Director for Management but at OMB as well.

If confirmed, I would seek to establish personal relationships with the senior management of the agencies and departments to ensure that they take seriously the execution of the programs and policies of the President as approved by the Congress.

In addition, I would urge that in the hiring, the recruitment, the training and the retention of personnel, utmost attention be given to hiring individuals and retaining those who are concerned about the execution and implementation of programs.

I believe, as you commented earlier, that the National Performance Review will be addressing these matters. But most impor-

tantly, we have a President and a Vice President who are deeply engaged and committed to execution, to implementation.

I believe that as S. 20, the Government Performance and Results Act, takes effect, as I hope, it will have additional authority for OMB to ensure that that type of execution does occur.

Those are the principal reasons for my hope that this time it will be different.

Chairman GLENN. How do we handle agencies with major problems, though? I guess I am questioning what authority you see your job as having as opposed to whether all the orders have to come from Mr. Panetta, or from the President, or from the Vice President. Have you discussed this with them? Once you get into this, can you put out direct orders to the agencies in the name of the President, or will you have to run that through somebody else?

Mr. LADER. The CFOs Act consolidated significant authority in the position of Deputy Director for Management at OMB, and I would seek through my relationships with the Inspectors General, with the Chief Financial Officers, as well as through collegial management, with the Deputy Director and the Director of OMB, to seek to put teeth into that CFOs Act.

So my response most directly is that we take management seriously, not simply as a noun but as a verb, and in that way, I believe that with Director Panetta, the Deputy Director for Management will be able to act very responsively and very aggressively with the agencies.

Chairman GLENN. I recently wrote to Secretary Aspin questioning the accuracy of DoD's 1992 Federal Managers Financial Integrity Act, or FMFIA, report. It was rather incredible to me that with all the serious financial problems the Pentagon has, that we have had hearings on here and also over in the Armed Services Committee, which I am also on, with all their serious problems, they were able to give a statement of assurance on their systems and controls. I find it difficult to understand that.

How did that report get through OMB? Were you over there when that went through? How do we get something like that through?

Mr. LADER. I am aware that this issue was raised with Director Panetta at his hearing, and I am certainly aware of the issue and the letter that you and the Comptroller General have written to the Secretary of Defense in this regard.

As this Committee is aware, under FMFIA, OMB has the authority to review those reports but not necessarily to reject them. Perhaps you are suggesting, as may be appropriate, that OMB take a more assertive role in the review of such reports.

Director Panetta in a letter, I believe, in February raised the same issue directly with the Secretary of Defense. I can simply assure you that through the revision, for example, of Circular A-123, which concerns the implementation and the response to the FMFIA reports, we will be seeking to hold the agencies more accountable for direct response. Yet I don't think it is, under the statute, OMB's responsibility to reject such reports.

I should say, Mr. Chairman, in praise of my predecessor, that for the first time, he sent specific guidance to all 23 agencies under the CFO Act, asking them to look particularly deeply into FMFIA is-



sues, and he met personally with 22 of those agencies. That is the type of assertiveness that I would hope to continue.

Chairman GLENN. Well, I would hope also—and you may not have the right nor the authority to reject, but you certainly have the right to comment on it where you think it is deficient or where you think they misled us on that, because we are depending on that report. And there is not much point in having it come through OMB for review if OMB doesn't give us the thoughts they have after they have reviewed it.

So I would suggest that when those things come through, if you disagree with them—when they come up to us from OMB, if there isn't any comment from OMB, we presume that it's OK, that OMB is concurring, and that is not necessarily the case, obviously. So we hope that you would feel free to comment on those things—I think it is your duty to comment on them where you disagree with the report that comes through, even though you may not have the right to reject it.

Mr. LADER. You can be sure I shall do so.

Chairman GLENN. Thank you.

You suggest that OMB must lead agency efforts to “re-engineer,” in your word, business operations, audit operations, and improve performance evaluations. What do you plan to do in that regard? Can you give us any ideas on that?

Let me give you an example of the type of thing I was thinking about when I went through some of these questions earlier.

GAO has reported to us that there are some 400 different accounting systems in the Federal Government. We questioned that, and they said, well, OK, it breaks down to 200 major differences in accounting systems in the Federal Government. How can you manage anything? I didn't know people could invent 200 different accounting systems, let alone 400. And we are on computers, and one computer can't talk to the other one on a computer system; you can't punch up something in your office over there and come up with a general Government estimate because the computers aren't even talking the same language.

How do you go about getting something like that straightened out? That's just one example.

Mr. LADER. Well, those companies in Ohio and in Michigan and throughout this country which have reengineered over the last decade—in the way that the Federal Government has not done—essentially have three questions that they have begun to ask. First, is this task necessary? Second, what would happen if we weren't doing this task? And third, how could we do this task better?

That reengineering process has not taken hold yet in the Federal Government. Yet there must be a state of perpetual reengineering.

In the area of financial management, where we have 400 financial management systems—and someone has suggested that there are 400 ancillary systems in addition to that—we need to be moving under the CFOs Act to the consolidation and cross-servicing between the agencies that have established capacity to provide those kinds of services. But most important, it is OMB's eternal vigilance, the oversight responsibility that the statute has given this position. With the controller of the Office of Federal Financial Management, I would intend to work directly with the CFOs and the

senior management in the agencies for such cross-servicing and for such consolidation so that there can be real management as a result of this reengineering process.

Chairman GLENN. I am happy to see from your answers to our prehearing questions that you support the use of the high-risk lists and SWAT teams. The high-risk lists were put together at a request from this Committee, asking OMB to come up with a list of the biggest areas of financial risk to the Federal Government. We also asked GAO to do an independent estimate of the same thing some years ago, and their estimates came out pretty much the same.

We have out there, in unfunded potential liabilities—and I am not trying to scare everybody by thinking that all these liabilities of guarantees and loans and so on are all going to come due on one day—but if they did, we have some \$6 trillion worth, estimates, of unfunded liabilities in the Federal Government. It is enormous. What we have done every year, then, is have them prioritize these high-risk lists as to what the greatest risks are so that we'll know where to concentrate our efforts.

I am sure you are aware of those lists, and I would be interested in having your views on how you plan to build needed internal controls so we aren't continually putting out fires. Do you have any new ideas on that?

Mr. LADER. In the revision of Circular A-123 and our efforts to ensure that the tools are not simply a burdensome, bureaucratic paper process, we at OMB seek to ask the managers themselves to identify what are the key indicators, the benchmarks, the performance measures, the systems measures by which they manage day-to-day. The compilation of that should comprise what we get through the FMFIA reports and what we would review under the CFOs Act.

It is adding the practical, common sense, hands-on management, and holding the senior management of the agencies accountable for financial performance, which will comprise the real progress that could be made in this Administration.

When you ask what else can be done, I would urge that the high-risk list needs to be highly publicized. I would not hesitate to urge, to cajole, to prompt, and as necessary, to make public the material weaknesses in the financial systems of the agencies. I would hope that this type of public attention—as well as hands-on attention from the senior management—might bring about some improvement in this process.

Chairman GLENN. From your look at this so far and with the work going on with the National Performance Review, are the current civil service laws going to assist you, or are they going to be a stumbling block in making some of the changes that you are going to need to make?

In other words, I guess my question is do we need to be looking at changes in civil service because the changes that we see coming up are going to be so big?

Mr. LADER. Senator, you can understand that I don't want to burn any bridges before I cross them.

Chairman GLENN. I understand that.



Mr. LADER. At the same time, the National Performance Review certainly is analyzing in depth the current civil service system. I have had conversations with the new Director of the Office of Personnel Management and look forward to working with him, with our colleagues in the policy community, and with the Congress and members of this Committee staff to determine how there may be appropriate revisions to our current system for the Federal work force.

I am aware of the National Academy of Public Administration's efforts to analyze a broader-band system for classifying individuals in the Federal work force.

But let me be quick to say that I don't think the problem is the quality of the people; the problem isn't the people in the Federal work force. It is the system that has become barnacled, if you will, and the National Performance Review is currently analyzing how some of those barnacles can be removed to free employees to a greater degree.

I should add finally, the most successful work forces in America today have found that oftentimes, traditional authority—command and control as has been exercised in the Federal Government for so long—no longer works in the 1990's. Consequently, some of the most successful American companies treat employees more as volunteers. I am not suggesting that this is an approach that should be used across the board in the Federal Government. Certainly, there is need to do otherwise in certain areas. But there is something for us to learn in that process, and I would hope that the extent to which we review and, in coming months, as necessary, in consultation with this Committee, revise any of the civil service laws, we would take some of those models into account.

Chairman GLENN. OK, but just so we can pin this down, it is your understanding of the National Performance Review, then, that it is going to look at the civil service laws and their adequacy in performing under the new proposals that will come out of that review; is that correct?

Mr. LADER. Absolutely. The National Performance Review is looking at virtually every aspect of the management of the Federal Government, certainly to the work force composition and the system by which the people are organized in the Federal work force.

Chairman GLENN. My time is up.

Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

#### OPENING STATEMENT OF SENATOR LEVIN

Let me add my welcome to Mr. Lader and his family. We congratulate you. You are going to be playing a critical part in the hoped-for success of this Administration. We created this position to try to make Government work better. Now that we have created the position, we can hold someone responsible for that outcome, and that person is going to be you.

This Committee, as you know, has jurisdiction over a whole host of issues relative to Government management. OIRA, the Office of Information and Regulatory Affairs, has been the subject of a lot of discussion in this Committee, the work of the Inspectors General, and my Subcommittee has jurisdiction over the Office of Fed-

eral Procurement Policy. You and I have discussed in my office regulatory review, and we are awaiting the Administration's proposal on that. We discussed that also with Ms. Katzen at her confirmation hearing. We have spent a lot of time in this Committee on trying to streamline procurement, to try to focus more on commercial products so that we can try to save the money which is now wasted when we come up with requirements and specifications which are designed from scratch by the Federal Government.

I don't know how many years we have spent on the DoD procurement system. Last year I think we cut about \$3 billion in purchases of supplies for the DoD that they requested, because we found that about half of the items that DoD had in its inventory were in excess of their needs. So we made a \$3 billion cut in the budget request, and I don't think they missed it. That's a lot of money to be able to cut, but it took years and years of work in order to do that.

The Chairman just asked you about the National Performance Review, and let me start with that. What form is that going to take? Will there be findings and recommendations, for instance? Or do you expect that it is just going to be findings?

Mr. LADER. I expect that there will be recommendations as well.

Senator LEVIN. And will this Committee have an opportunity to participate in commenting on those recommendations before they are made and before they are implemented?

Mr. LADER. The work that has been done in the previous 3 months has been, as the NPR leadership itself terms it, "blue sky," considering many options as to reconfiguration and reprocessing of many parts of the Government.

My involvement will begin over the next month. Thus far, I have assisted and advised the Vice President in the development of this work. A few weekends ago, I sat through 34 hours of so-called "toll-gates," where the committees presented many of their initial ideas, but I did so as an observer.

As Chairman of the Policy Group of the National Performance Review, I will participate in the next set of "tollgates" in which these recommendations will be presented. Then our Policy Group will have the responsibility for formulating not only the observations, but recommendations for the Vice President. He has advised me as recently as a few days ago that it is his intent that, sometime in the next few weeks, he would like to meet with members of this Committee to consider the legislative mechanisms by which there could be implementation of some of the recommendations.

In the next 3 months, I think there will be opportunity, as the Vice President directs it, for this Committee and its staff to become more involved in the National Performance Review process.

Senator LEVIN. Will that include the process only, or will it also include the substantive proposals?

Mr. LADER. I would look to the Vice President for the lead on that, but I suspect since implementing many of the National Performance Review's recommendations will require the work of this Committee and other committees in the Congress, that he will be seeking your examination of the proposed recommendations as well.

Senator LEVIN. There is a lot of discussion about waste in Government spending and mismanagement. Books are written identifying it as a big subject. When it comes to doing something about it, it is very, very hard work. It is not self-implementing. It doesn't just happen because something is disclosed. We have had, as I mentioned, dozens of hearings and GAO reports just on DoD procurement practices. It took us a long time to make changes, and there is still a lot to be done in the area of inventory practices. These are just some of the recommendations for a year from GAO on improving operations of Federal departments and agencies. We are not short, in other words, on recommendations. We have 800 pages here of recommendations by the GAO, so we aren't starting from scratch. But, it is a tremendous amount of work to implement recommendations. It will not happen by itself. What makes abundant sense on page 323 could be a disaster to some group out in the countryside or to some agency of the Federal Government, and they will argue all the reasons why it should not be done.

It is kind of a general question, but I guess my experience being that you have got to spend a great deal of time sort of breaking heads a bit and sometimes stepping on some toes—do you believe going in that most of your time is going to be spent on recommending or on cracking heads to implement? I know that is a very general question, but having seen so many books on waste and on inadequate action implementing recommendations, I am interested in general in your feeling on this issue. Will most of your time be spent on implementing recommendations, holding people's feet to the fire, or will most of your time be spent on identifying the waste and just letting it hopefully be implemented by others?

Mr. LADER. Let me offer a specific and then some general responses. I was startled at first to see that the Federal Government spent about \$1 billion on paper last year, but after just seeing some of these recommendations like the ones to which you point, I can understand where a lot of that paper was used.

The responsibility that I would have, if confirmed, is not necessarily just to make new recommendations or find new opportunities; it is to get something done. And my observations on that in a more general sense are these.

I remember, if I could first take a philosophical approach, that when Maitland, the constitutional historian, commented on Blackstone's commentaries, observed that Anglo-American law has come to us through the interstices of procedure. What he meant by that, I think, is not simply that there were broad constitutional principles, but there were specific, day-to-day actions that led to the results.

I believe that the work that has to be done now is compiling all these reports, figuring out which are the most practicable recommendations, and getting something specific done—working through the interstices, if you will, of the procedures in consultation with this Committee as opposed to having visionary designs of eradicating waste, fraud, and abuse.

Senator LEVIN. If I could ask one final question—and I think it will be a short one because my time is up—

Chairman GLENN. That's all right. Go ahead.

Senator LEVIN. Thank you.



There is a quote in your written answers to the prehearing questions, and I did not understand the statement that you made, and I was curious about it: "All managers should expect what they inspect." I wasn't sure what you meant by that. It was an interesting way to phrase it.

Mr. LADER. I borrowed that from the Marriott Hotel Corporation. Some years ago, if I remember correctly, in their kitchens, they used to have big signs that read, "Expect what you inspect." And amidst all the conversations in this entrepreneurial government, as a result of David Osborne's book and the like, about giving more liberties and more freedom to employees—principles that I would also espouse to some degree—I think it is important, particularly in my role as chairman of the PCIE and the ECIE, that we recognize that the CFO, the inspector general, and senior managers, especially, should expect in terms of performance what they inspect. It is important for individuals to hold other people on their staffs and their colleagues accountable for results. That's what I meant by "expect what you inspect."

Senator LEVIN. Thank you.

Again, you have a legion of friends and supporters who really believe in you, so get with it; we're all with you.

Mr. LADER. Thank you, Senator.

Chairman GLENN. Thank you.

Senator Roth.

Senator ROTH. I apologize, Mr. Chairman, for being late, but I attended an earlier meeting.

#### OPENING STATEMENT OF SENATOR ROTH

It is a great pleasure to welcome you here, Mr. Lader. I think you have an extraordinarily important and challenging task ahead of you.

For too long, I think the need to manage effectively the resources of the Federal Government has been given inadequate attention. In recent years, this situation has begun to improve.

One of your major responsibilities will, of course, be to ensure full and proper implementation of the new Chief Financial Officers Act. With the right personnel trained and in place, it should bring strong financial accountability to the Federal Government. This will tell us how our tax dollars are being spent. In the very real sense, it is a little bit unbelievable that we really don't know today.

Ensuring maximum return on these dollars is, I think, a much needed reform, and that is our purpose in S. 20, the Government Performance and Results Act. I am particularly proud and pleased to see the Administration's strong support for this legislation. I think it can be a vital tool in helping us do more with less.

But in addition to strengthening both financial and performance accountability of existing programs, I think it is critically important that we have a comprehensive reexamination of how are programs are structured and operated. Should they be consolidated? Can they be streamlined? Do we have the right incentive and personnel systems in place? These and similar questions lie at the heart of what the Administration likes to call "reinventing Government."

I know the Administration is seriously committed to examining these issues under the Vice President's National Performance Review, and I think this is an excellent start and applaud the Administration for undertaking it with such enthusiasm.

I also know that much of what they will find that needs to be done in the way of reform will fall on your shoulders. It is true that there may be much that could be implemented administratively, without congressional action. But the real, comprehensive, fundamental reform that I think is needed will require major legislation.

My concern is that existing legislative realities make enactment of comprehensive reform very difficult. That is why I share with others on this Committee a strong belief that there needs to be a longer-term, bipartisan body created both to develop comprehensive reform proposals and to put those proposals on some kind of legislative fast track. We are working to develop a single proposal to create such a mechanism, and I do hope the Administration will realize that this effort, in the long run, serves its best interests.

I know that Mr. Lader brings to this position, in addition to his other qualifications, a good personal relationship with the President. I believe this will be helpful in making sure that OMB's management side continues to grow in stature and effectiveness.

So I look forward to working with you, Mr. Lader. It is a pleasure to greet you.

I do have two or three questions, Mr. Chairman.

Chairman GLENN. Fine. Go ahead.

Senator ROTH. Given your background in private sector management, what lessons have you seen in reforms there that might be applicable to Federal Government?

Mr. LADER. Yesterday the Vice President, as was reported in the papers today, had occasion to meet with about 800 Federal workers. He commented then that the so-called "quality institution," which has really transformed American companies over the past decade has, in his words, if I might paraphrase him, almost passed by the Federal Government.

I think that, from my experience and the experience of many others with whom I would consult from the private sector, there are a number of very specific steps, procedures and approaches that should be used in the Federal Government.

The Vice President, for example, identified several themes. He suggested first—and I think you would be especially pleased with this—that we need to measure. And I, as a strong supporter of S. 20, hope that we will have at OMB the responsibility for implementing S. 20, in determining performance measurements, to use benchmarking, as the great American companies have been in the past decade.

The Vice President went on to identify the fact that most American companies have taken a new view of the relationship with their customers, and I believe that we must deal with the American citizens more as customers.

I have on the floor of my office right now, and if confirmed, it will go up on the wall, a statement from Sam Walton. He says, "There is only one boss, and that boss has the ultimate power to fire you. That is the customer."

The customer is the American citizen, the American taxpayer. That will be part of the message I will convey.

The Vice President went on, as he identified the other themes of what had been happening in American industry, to point to competition. We see in the great American companies today greater internal competition so that individuals and departments have the opportunity to find the best way of solving specific management problems. That type of internal competition is necessary in the Federal Government.

To a great degree, the American companies which have succeeded best have been very responsive to new market trends. You see in the grocery stores the profusion of new products, of product elaboration that goes on the shelves every single day. To that extent, we have to be concerned not just with new programs, but with how do we consolidate old programs: which ones should be extended, which ones should be abandoned. The Federal Government needs, as American companies, to be more market-driven.

We need to empower local communities, the nonprofits, the academic communities, so that Federal Government, in David Osborne's terms, is doing more steering than rowing. That is what the great American companies have been doing in their general management leadership, and that is what we should be doing.

My final observation is decentralization. If you look at why Microsoft today has a greater market capitalization than IBM, at why The Gap or The Limited do their retailing differently from Sears and have succeeded, I think you recognize there has been tremendous use of automation that has made possible greater decentralization.

Taking all that together—and with a new look at the role of the individual worker in the Federal work force, treating individuals more as volunteers when appropriate, but at the same time recognizing that accountability is essential—if we take each of these indices of change in the American private sector and adapt them and embrace them to Federal Government, I think we can bring about a revolution in management—not in 4 years, not in 8 or 16—but certainly we can reinvent Government over the long term.

Senator ROTH. One of my concerns is that whenever we have a new problem, we create a new program, maybe a series of programs, create a new department, several levels of bureaucracy, and what happens is that despite the fact that you often have very good people in these agencies, the process becomes the thing. The regulatory process becomes more important than the point you are making of service to the customer, and as a result, we don't see Government really serving the needs, and the people back home don't see Government solving the problems.

So to me one of the key problems is that as I understand in the private sector, much of business today is simplifying their organizations and putting small groups together who are empowered to make decision. So, somehow, we have to do that in Government, but it isn't going to be easy, and I will be interested in your ideas in these and other areas. I think we are fortunate in having someone like yourself, with your experience and background.

Let me mention procurement. The Federal Government is frequently criticized for its procurement policies, both by those within



the Government and business trying to deal with the Government. Have you given any thought to how to improve Federal procurement practices?

Mr. LADER. The start of a new Administration is probably an opportune time to be addressing this barnacled maze of regulations. The FAR, I discovered upon coming to Washington, now has some 30,000 pages. I am not sure how any procurement officer can wind his or her way through all that.

Senator ROTH. There are 840 steps, I believe, from creating an idea in the Pentagon for a new weapon to completion—840 steps. It is no wonder it takes 8 years.

Mr. LADER. Let me share with you my vision of where the procurement process should be going.

We need to have a simpler, more businesslike, more automated system that is characterized more by the use of commercial products. How do you get there? What are the challenges?

First, we have to give line managers greater flexibility in choosing what products and at what time and at what cost they should procure those products. We must have more effective cost controls on that decentralized type of acquisition.

In addition, we have to increase productivity so that individuals can have that type of choice. We need to adopt more of the private sector inventory and procurement practices.

But while we are doing all that, we have to ensure—and this is why all those 840 steps probably came into place—the financial and ethical integrity of the procurement process.

That does not require extensive new studies. The National Performance Review is analyzing this. Two Federal Government studies provide the core for reform. For example, let's use the Department of Defense as an example. Its section 800 Panel had 10 volumes of recommendations. I won't suggest to you that I have read them all, but two themes emerged to me. The first is to simplify the process, and second, to enhance and increase the use of commercial products.

If we couple the 800 Panel's recommendations with the civilian agencies' recommendations—and that was a result of the SWAT team from OMB, about 240 recommendations—they provide us with a very good basis for realistic, practical procurement reform. I would look forward to working with this Committee as well as with the Vice President and with the Director of OMB to that end.

Senator ROTH. Mr. Chairman, my time is up. Let me say I look forward to working with you. I was pleased that in earlier answers, I think you expect to play a key role in the performance review that we hope to have in place in the near future.

I congratulate you and wish you well in your new endeavors.

Mr. LADER. Thank you, Senator.

Chairman GLENN. Thank you, Senator Roth.

I am sure you read the article in the newspaper yesterday by the Vice President, "We Got Mowed Down in Atlanta."

Mr. LADER. Yes, sir.

Chairman GLENN. He gave some examples there. I want to use as an example here something I think ought to be careful of. The example he used there had to do with the purchase of a steam trap that costs \$100 which, if it malfunctions, leaks steam at the rate

of about \$50 per week. He pointed out in that Op Ed that the purchasing unit at the base where the steam trap case came from insisted on waiting for many other orders to come in before going out and making a purchase, and that this then resulted in some \$2,500 worth of steam over the period of time that they waited. It was a ridiculous example, as he pointed out, of waste that we should have corrected.

This was brought up some time ago before this article was published, and we looked at the Federal Acquisition Regulations, and in that, there is nothing that says you have to wait for a volume purchase on anything that is \$100. Indeed, every base has what they call an "imprest fund" that allows purchases of an article costing up to \$500 without going through any bureaucratic red tape.

The reason I bring this up is not to quarrel with the Vice President, but just to point out that a lot of these things are just plain bad management, people not knowing what they can do and what they can't do, and that is going to be right in your ball park. So it isn't a matter of changing the Federal Acquisition Regulations, the FAR, at all; it's just a matter of people knowing what they can do and having sense enough to go ahead and act on it.

I had originally thought—when I heard the Vice President use that example one day, I came back all fired up, let's get onto that thing and change it right away so that we can give people on the bases authority so that we don't have something like this happening again. I found out they already have that authority, so it is just poor management out there.

That's more a statement, I think, than it is a question. I know you want to fix something like that and make sure that people are aware of that. But also, I want to make sure that we keep our efforts focused on things that really need to be fixed as we go through this whole National Performance Review, also.

Following that, good management requires good people. If we don't have the right people who understand what is needed, all the systems in the world won't really help us.

The President has talked about a 5-year time period after employment in which people could not deal back with the Federal Government. I don't disagree with that at all, but as I told the President one day, and then wrote to him also, I am far more concerned about an area that I think you probably will be concerned about also, and that is that we keep good people in management positions in Government long enough to do the job.

I asked GAO to look at this, and they found that, I think it was, from 1981 to 1991, about a 10-year period, 31 percent of the people at top management levels in Government were gone within 18 months. That's almost one-third of the people who came in. They aren't worried about the 5-year employment restriction. That's 31 percent of the people gone within 18 months, and this is over a 10-year period. Fifty percent of the people were gone in 27 months.

Now, as someone coming into a top-level Government position, as you are well aware, it takes 3 or 4 months before they have their feet on the ground and even know what "FAR" and all these other things we refer to by acronyms even mean. And then, when they are getting ready to leave Government, you can bet they are short-timers for the last couple of months, so they aren't really accom-



plishing much there. So there is 5 or 6 more months out of it. So what effective use do you have out of that almost one-third of the Federal Government—you get 1 year's use. So to think that they are going to come in and really make improvements in management and know what they are doing in that time period is just wishful thinking.

I don't know how you change that. I suggested to the President that he get an absolute commitment from all of his top-level people that they will serve to the end of his term, or at his pleasure—if there is something wrong, or if they have family problems or something, obviously some people are going to have to leave. And I would suggest that that be the standard over at OMB for the people that you are suggesting go into some of these top positions, that you get their commitment that they are going to stay there, and that they are committed to doing the job, and they aren't coming in just to get another page on their resume, as too many people do.

What do you think of a requirement for continuity, a requirement to serve out the term with the President, for people coming in? Would that be practical, or do you think it is impractical?

Mr. LADER. I am aware of the Volcker Commission's report, suggesting that more room needs to be made at the top for senior career officials. I do think that there is merit to your suggestion, and I certainly will, as the occasion arises, discuss it further with the Director, the Vice President and the President.

I should comment that, notwithstanding the importance of the point you just made, sometimes there are bad fits and changes need to be made, and there is some benefit from the infusion of new energy and new ideas from Presidential appointees, so having just career appointees is not the answer. Nonetheless the point you have made regarding political appointees' commitment to serve out their terms, is something I think the President should give further thought to.

Chairman GLENN. Those are the people charged with carrying out what the President has been elected to do and what he is trying to do to change the direction of Government, and without the commitment to stay a while with that group of people that is charged with implementing what the President is trying to do, I just don't think we are likely to get it done. We just can't churn the people in Government and expect there to be any real progress made.

Ed Mazur is our controller and the Office of Federal Financial Management is up and running. There aren't as many bodies there as perhaps we thought there were going to be by this time. To that end, in your prehearing answers, you talk about the need to deal with our many financial management problems concurrently instead of sequentially. I certainly agree with that. Do we have the people to do it?

Mr. LADER. If we had 3 times as many people in the Office of Federal Financial Management, we still wouldn't be able to adequately address all the questions. When you look at unfunded liabilities, when you look at \$110 billion right now of delinquent debt, and just go down the list—when you look at the 400 or, as someone suggested, 800, separate and often incompatible Federal financial systems—the key issues of the Office of Federal Financial

Management are to what extent can we prioritize, and how can we focus? I assure you, Senator, that I will bring my best efforts in the oversight of the Office of Federal Financial Management to try to determine which areas can give us the most return for our energies and to focus on those.

Chairman GLENN. We are just getting into the impact of the chief financial officers in each of the major departments and agencies of Government. When you are running a small "mom and pop" operation, mom says, "Dad, if we don't cut out this waste here, we are going to go broke." When you get a little bigger, you have an auditor who does the same thing. When you get a little bigger, you probably have a comptroller. When you really get to be big time, you have a chief financial officer to run the whole thing, and I believe you have had some experience in that area.

When you get to the CFO level, though—and it is almost unbelievable that we have never had CFOs in the United States Government; we just run each department, and at the end of the year, they ask for what they got last year plus inflation plus a little more, and OMB looks at it, massages the numbers, sends it over here, and that becomes our budget. We don't have any bottom-line audit for every agency on whether they really accomplish their mission and a statement, after analyzing it, as to how they could do it better, where the money being spent is doing nothing that is of any good, really, or not accomplishing the mission, where we could spend it better. We don't have that kind of an analysis unless somebody just happens to decide to do it on their own. That was the purpose of the CFO Act, was to put somebody in there to do that every, single year.

We also wrote into it that it gets reported not only back to OMB, but it gets reported up here on the Hill, independently; we get the same report you get, just like we get the IG reports. We wrote those specifically that way so we could follow up on some of this.

Now, to implement that, we need good people. And I think Mr. Mazur is good, he had good experience in this area. And I think some of the appointments that were made in the last Administration were good, and some were abominable, in that, after talking about it and supporting it, they then gave the CFO responsibility as collateral duty to somebody there—they didn't even assign anybody new to it, but gave collateral duty to an assistant secretary or someone else to do along with all of his other duties, as though that's all that was required to implement this.

I just disagree with that. I think it can be a very, very important management tool. I don't know whether you have looked into that or not, but I would hope that you would look at that and make sure that we get qualified agency CFOs, and that will be key in your "M" in OMB, as I see it, as to how you are able to implement some of these things.

That and the IGs can be your investigative people in the agencies that are supposed to be completely independent and report both directions.

I don't know whether you have any comment on that, but I would hope you would look at the tight people and make sure that we get fully qualified people to work with Ed Mazur and to work with you as we try to implement the CFO Act. The required year-

end reports were submitted to us for the first time last December 15, so we are just getting into this now, and you are going to be key to implementing the whole thing. I hope we can get good people to help you out on that.

Mr. LADER. Mr. Chairman, Director Panetta, as you are probably aware, in February sent a letter to each of the Cabinet Secretaries and agency heads, urging them to recognize the importance of the Chief Financial Officer in their respective agencies and departments and to nominate individuals who have backgrounds that are appropriate for that job. He is aware of that. I very strongly support that and understand the teeth that it has given my position to help bring that about. I have discussed it with the Office of Presidential Personnel, and, if confirmed, you can be sure I will be working to put together with the Cabinet Secretaries and agency heads a cadre of CFOs who have the relevant experience.

Chairman GLENN. In your prehearing responses, you say OMB should be more aggressive in addressing adverse audit findings. What specific actions do you envision OMB taking to force correction of chronic adverse audit findings?

Mr. LADER. A partial response to that is the revision of another OMB circular, A-50, which deals with the extent to which the senior management of agencies take responsibility for and have a plan for followup on audit findings. I would, as I mentioned before, not hesitate to use the authority that has been consolidated in the position I would have, if confirmed, to urge upon the agency heads to push, to prod and, as necessary, to publicize, the material weaknesses of systems that are found in such audits.

Through the high-risk list, through SWAT teams, and especially through the power of persuasion directly from OMB, we have the opportunity of intertwining the management and budget roles to respond to such audit findings.

Chairman GLENN. In your prehearing responses, you point to the need for more cooperation between CFOs and IGs in solving many agency CFOs Act organization/implementation problems, as you put it. Keeping in mind the statutory independence of the IGs, how do you provide a proper balance between the IGs' consultative and audit roles?

Mr. LADER. If confirmed, I would be serving, as you are aware, as Chairman of the President's Council on Integrity and Efficiency, and the ECIE. In that role, there is the opportunity to help that Inspector General community shape the direction of their roles. Traditionally, it has been more investigative and inspection-oriented. With the CFOs Act, there is additional responsibility for audits.

I have met with Professor Paul Light, whose book, as the Committee staff is well aware, has advocated an even broader role for Inspectors General in terms of performance review and evaluation of programs. To the extent that the respective Inspectors General have the background and capabilities to perform increasing audit and increasing evaluation functions, I would look to their doing so.

That will require continued training and retraining of the Inspectors General, and the recruitment, as there are opportunities, of new Inspectors General who have that type of audit and evaluation background. But the key word is what you mentioned at the outset



of your question: independence. We have to safeguard the independence of the Inspectors General while using them in a way that is constructive in the oversight and management of the respective agencies.

Chairman GLENN. The IGs were basically put in by this Committee back in 1978, so we are getting close to 15 years on IGs being in office. And then we expanded them about 4 years ago. We think they are one of the real success stories in Government, unsung, little heralded, but I think they do an excellent job by and large, some of them more effective than others. But the IGs in I think it was 1991 successfully prosecuted through the Justice Department, if I recall the figure, 6,277 cases and got back close to \$1 billion for the Government. That's good, plus the message that sends to other people who may be thinking about trying to gyp the Government out of something. So I think that is one of the real success stories in Government, and I am just concerned about anything that would limit their activities, and we have supported them fully in this Committee.

Apropos to that, I know you are aware of last year's Attorney General Order which severely cut back the authority of the Justice Department's IG Office. I mentioned this problem to Director Panetta at his confirmation hearing, and I have since met with the Attorney General about it, but we haven't seen any action on it yet. Meanwhile, the responsibilities of that IG Office, as we view it, have seemed to diminish.

In your prehearing responses, you indicate that you understand that the 1992 order went too far. Have you had a chance to look into that, or how do you plan to work with the Attorney General to rescind that order?

Mr. LADER. Mr. Chairman, I am generally aware of the matter. I know it was raised in Director Panetta's hearing, and in fact on May 19, I believe, he wrote the Attorney General about his particular concern as he had expressed in his hearing.

I am conscious as well of the tension between the Department of Justice's Office of Professional Responsibility and the Office of the Inspector General there. I can certainly assure you that I would work with the Department of Justice and the Attorney General to address this matter. If the order is rescinded, I will do everything possible to ensure that whatever internal investigative procedure that is established fully complies with the Inspector General Act.

Chairman GLENN. We hope you would work with her to get that rescinded, too, because it is something that we think needs to be done to assure the independence of the IG.

Executive orders issued by President Clinton require cuts to personnel—we understand that—and also to agency administrative budgets over the next several years. And I am certainly persuaded that in some areas, Government has grown too big. I am also concerned that in other areas, agencies sometimes don't have the resources to carry out legislatively mandated missions—in other words, in some areas, they aren't big enough or don't have enough people—and that the absence of adequate resources has led to many management failures and to fraud and waste and abusive contracting.

HUD is one example where this is a case. I think EPA borders on being another, in some of the hearings that we have had on EPA. Will the NPR look at areas where Government should be expanded to do a better job, and more people should be put on a certain function of Government to make sure that it does the job or protects the people the way they are expecting to be protected?

Mr. LADER. I don't know whether NPR will, but I can assure you that the Office of Management and Budget, in our regular budget process and in our management and budget reviews as well, which will begin in the next few weeks, will be examining this.

The President's directive to reduce the Federal work force by 100,000 FTEs over the next few years was really his attempt to stem the tide of the increasing number of Federal workers, the growth of the bureaucracy. It provides a very creative opportunity for Federal agencies to reengineer, to look at the processes of Government and to question whether things should continue to be done in the way they have been done in the past; what tasks are necessary, and how they might be done more efficiently.

From his advisors' reports, the President's goal seems to be achievable through attrition. But I recognize, Mr. Chairman, the validity of your point that it cannot be applied across-the-board. There are respective agencies in debt collection and provision of direct services to the public where there may be the need for additional employees.

As in all management, it comes down to a question of balance and determining the utilization of people. We would encourage, and if confirmed, I will use this position to have each of the agencies take seriously, reengineering processes that allow them to reduce the number of employees without having a hollow work force.

I am very conscious of your and particularly Senator Pryor's concerns about A-76, which deal with the use of contractors to provide what are inherently governmental functions. Director Panetta, as you know, issued a letter—I think it was March 19—which directed each of the agency heads to examine the extent to which they are using contractors and to what ends. We at OMB plan to be particularly vigilant on this matter to cause to have the Federal work force reduced through attrition, but at the same time to ensure that we do not have a hollow Government.

Chairman GLENN. You attended Ms. Katzen's confirmation hearing in which we talked about regulatory review, and I believe regulatory review is necessary. I am all for it, for a lot of reasons—but it has to be open. I think the OIRA staff lost a lot of credibility in the last couple years defending the Council on Competitiveness when we had hearings on that. That has been done away with now, and I won't go into my usual hour-long speech on what I think about the Council on Competitiveness and how it operated in a very, very unfair manner. But could you describe the role you expect to have in structuring the Administration's regulatory review process and in supervising OIRA's activities?

Mr. LADER. Mr. Chairman, Senator Levin has given me that lecture on the Competitiveness Council, so I am very conscious of the issues concerning the fairness and openness that he and you have raised in that regard.

Chairman GLENN. Well, I think you heard me at a previous hearing on that subject, so I don't need to repeat it this time.

Mr. LADER. No. I think you have seen in Sally Katzen that we have a nominee for Administrator of OIRA who is especially strong, gifted, and experienced. You will see from the very professional OIRA staff under her leadership a resumption of the statutory and practical responsibilities of OIRA.

I have to observe, though, Mr. Chairman, that in regulatory review, there is obviously the need for some type of vetting amongst all the Federal agencies, when one particular agency with its own zeal and its own shaft of experience, dug deep, is about to promulgate a regulation, that it needs to be vetted amidst the other agencies, and OIRA serves that purpose.

Since these regulations need to reflect the priorities and the policies of the President of the United States, it is appropriate that there is that type of review. I recognize that if confirmed, I would have the responsibility for overseeing OIRA's work, and I believe that this can be achieved with a sense of fairness and openness, while safeguarding President Clinton's need to have confidential advice on those limited occasions when the President's direction is necessary to shape regulatory review.

Chairman GLENN. It is a very big area. I ran for reelection last year, and I can tell you first-hand that there is nothing that has people any more mad, at least in the State of Ohio and, from other Senators' comments, other places around the country as well, than the absolutely overwhelming tidal wave of rules, regulations, paperwork, requests that businesses and individuals have to respond to.

We pass laws here on the Hill, and unfortunately we don't write them with all the specificity that we probably should here, so we send it over, and the executive branch then implements those laws by putting out the rules and regulations that will apply to everybody in Government. I think sometimes they get a little overzealous—you have somebody who is a specialist in a particular area, and that person gets the opportunity to write a rule or regulation in their area of specialization, and they go at it with a vengeance. Now, it is supposed to reflect the legislative history here on the Hill. I think sometimes they do, and sometimes they do not. And maybe we just write too many laws here on the Hill. But I know that the people out there across the country and certainly in Ohio are—I think I hardly went to a single campaign event that somebody, some businessman or individual didn't come up and address this subject to me about why we have so many regulations we are requiring them to respond to, and duplicates from different branches of Government, asking the same questions over and over again. I don't know of any area we could get into in which you could do a better service for the American people than trying to make some sense out of all these rules and regulations and regulatory review.

It is an enormous job, and I don't know exactly how you'll do it. I'd appreciate any comments on how you plan to approach this.

Mr. LADER. Well, as a businessman, as you were in your former life, I can share with you the anguish about the sheer volume of paperwork and the regulatory maze that the business community



has to go through. It is an enormous cost. It is an enormous anguish to citizens, generally. But it costs not just the business community, and especially small business, but the economy-at-large. If you think Ohioans feel strongly about it, I invite you to come down to South Carolina and get a sense of how some of my neighbors feel about it.

How do we deal with this issue? There is obviously a need for a balance between the Government's proper need for information and for that information to guide policymaking here on the Hill through legislation, through regulatory review, through all the work at OMB and at the agencies. At the same time, the balance must recognize that justifiable anguish on the part of American taxpayers and citizens having to go through all this paperwork.

Automation is a partial solution. It won't come overnight, but I certainly expect that the use of OIRA's ADP oversight powers may enable us to use automation to improve this. Also, I know Senator Pryor likes to quote billboards that were put up all during the Second World War with a photograph or a sketch of someone at a service station saying, "Is this trip necessary?" I am going to challenge every agency head seeking to get the OMB stamp of approval on any new regulation and any new form to ask, "Is this trip necessary? Is this form necessary?" And I would hope that our particular attention to this matter might be able to at least stem the growth, if not reverse that trend. But it is awfully tough.

Chairman GLENN. Somehow, people in the agencies have to get the idea that their success in life, their move up the civil service ladder, is not determined by the poundage of the rules and regulations that they put forward, but by whether they really, truly reflect the intent of the legislation here on the Hill. I think that would go a long way toward solving some of these problems.

As with regulatory review, much needs to be done to improve OMB's paperwork reduction efforts. I am happy to see from your prehearing responses that you understand the important role OIRA has in cutting red tape and improving information management.

What can you do to make OIRA more effective in that area? Will you work with us to reauthorize the Paperwork Reduction Act? We have had several fits and starts on that in the last few years and don't have it reauthorized yet. Have you looked into that?

Mr. LADER. I look forward to working with you, members of your Committee, and your staff toward that reauthorization.

The first step, in response to your first question, is to have the strongest possible OIRA Administrator. I think you recognize from the hearing last week that we have in Sally Katzen someone not only of great intellect, but someone who is not a shrinking violet when dealing with such matters as automation, regulatory review, or paperwork reduction.

I plan to work closely with her and to provide leadership and oversight to OIRA's work in this regard. But I take very seriously the need to cut the red tape. If there is any central theme to the "reinventing Government" message that President Clinton and Vice President Gore have articulated, it is to try in the course of this Administration, and over a much longer term, to reverse that red tape process.

Chairman GLENN. The National Performance Review is fine, but we all know we aren't going to reform Government in the 6 months after it makes its report; it is going to go on for a long period of time. Senator Levin mentioned this a little while ago, and I would add that politically and practically, we have to work together on this. You need Congress to be involved in this whole thing, and I would hope that as you move along on some of these considerations that we can work closely together on this with the Committee, or personally. I would welcome your calls or discussion of this at any time so that we can work together on it. We are not a monolithic dictatorship in this country. We have split powers of Government. And all the proposals in the world out of the executive branch aren't going to do any good unless we pass what is necessary here and implement what you are trying to do.

So we look forward to working very closely with you, and I think the best way to do that is to keep in very close touch in the formation of these new ideas as well as just putting them out to us after they are formulated.

Just a couple of final questions. You noted in your answers to the prehearing questions the role played by OMB in the implementation of Federal energy efficiency. We responded to what was a study that estimated that about \$1 billion a year could be saved in Federal energy costs if we just managed energy better—heating and air conditioning for buildings, and so on—and we passed legislation that required a new approach to that. I don't know whether you have had a chance to look at that or whether you have even thought about Federal energy management in buildings as being part of OMB, but putting the people in to do that is part of your responsibility there.

We are going to be holding a hearing on implementation of those energy management requires on June 24, and we may want you to come back and appear as a witness here if you could get some information on that and if you would commit to doing that.

Mr. LADER. When we moved into our apartment, I gave my 8-year-old daughter, Mary Catherine, the lead responsibility in our family for turning off the lights whenever possible. I think this Committee has given me the similar responsibility for the Federal Government.

The enormity of the task was brought home to me when I learned that about 27 percent of the office space in Washington, DC is leased or owned by the Federal Government. That's a lot of lights to be turning off and a lot of air conditioning to be turning down.

I am very pleased, though, to note the progress that has been made. Since the 1985 base to which you refer, there has already been, I believe, a 10 percent decrease in the Federal Government's energy costs, and the goal by the year 2000 is to achieve a 20 percent reduction. If I remember correctly, that would amount to about a \$400 million a year savings to Federal taxpayers. So it is certainly worth the effort.

I can assure you, Senator, that through our work at OMB, through management and budget reviews, through the use of new devices, whether it is new metering and the like, that my staff and I, if I am confirmed, will be giving great attention to this.



In response to your question about my appearing before you, I should observe that it may be inappropriate before confirmation for me to agree to do that. I am reminded of Winston Churchill's comments when he advised: Never try to climb a wall that is leaning toward you; never kiss a woman who is leaning away from you, and never appear before a committee that knows more about the subject than you do.

If I can learn a lot before I have the opportunity to come, then I will be pleased to come and appear before you.

Chairman GLENN. We'll learn a lot together. That's fine.

And Mary Catherine, when you go in your Dad's office, if there are too many lights on, turn them off, OK? [Laughter.]

I recently joined with Senator Mikulski in introducing S. 995, the Federal Disaster Preparedness and Response Act of 1993. The bill has been referred to this Committee, and we are going to be taking action on it in the coming months. I think some of the emphasis that FEMA has had in civil preparedness, the nuclear response, and the continuity of Government areas has been an emphasis that perhaps needs to be changed now more to disaster management here, like Hurricane Andrew and things like that. We have some suggested changes there. That is something else that is going to require your cooperation and your working on it over there if we are going to make it work because it involves reorganization of Government.

Let me just close with this statement. This Committee's two major responsibilities, among a lot of other things that we have responsibility for, but if we have two overriding responsibilities that cut across all departments of Government, it is that we oversee the organizational aspects of Government and the efficiencies of Government.

Now, there are people who think that even the phrase "efficiencies of Government" is an oxymoron to begin with. I don't believe that. We have taken this very seriously over the years in establishing IGs, CFOs, and the other things that I mentioned early on.

I think we can have a better, more efficient Government. But I point this out as our Committee responsibilities because these are the two areas that you are going to be more involved in than anything else that you do over there. It is going to be organizing, seeing who has what responsibilities, trying to get them carried out, eliminating boxes of Government on the wiring diagrams or putting new ones in to make sure that we are able to do what we are supposed to be doing, and also, doing this as efficiently as possible.

I don't know whether we have to reorganize the civil services. I want to look at the NPR, and I want to work with you in the formation of that, and with the Vice President, to try to implement that when it comes out. I hope that we can all get together on it and really have a program that can not only do the reinventing of Government—which to me means reorganization in some areas—but certainly, reinventing means more efficiency in Government so we stop wasting taxpayer dollars. Those are areas that this Committee has particular responsibilities for.

We are forever having hearings here on different subjects that involve other committees, and we are always trampling on other

people's toes. I am on the bad list for half the committee chairmen around here because I am into their areas, looking at the efficiencies of Government that they see as their responsibilities.

So we sort of take the broad, Government-wide approach to it here, and in effect we have a hunting license to look for whatever we want to look for and to get into whatever areas because of those responsibilities of the Committee.

I just use that as more of a closing statement than anything else, to say that we want to work very closely with you. These are areas that you are going to be very much required to work in, and we look forward to working with you.

I don't know if you have any closing comment you'd like to make before we conclude, but I'd welcome any comments you'd like to make.

Mr. LADER. I thank you for the opportunity today, and I especially want to thank the members of this Committee and your staff for all your help in the past few months. I look forward to working closely with you and consulting with this Committee on all of the matters we have discussed.

Chairman GLENN. Thank you very much.

I have heard of no opposition to your appointment, and we want to move this along just as rapidly as we can and get you formally confirmed and into place over there.

The Committee record will be kept open in order for members of the Committee to have the opportunity to submit additional written questions to you. We would appreciate your prompt attention in responding to such requests.

The Committee will stand in recess subject to call of the Chair. Thank you.

Mr. LADER. Thank you, Senator.

[Whereupon, at 11:05 a.m., the Committee was adjourned.]

## APPENDIX

### BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEE

#### A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)  
Philip Lader
2. Position to which nominated:  
Deputy Director for Management, Office of Management and Budget, Executive Office of the President
3. Date of Nomination: April 21, 1993
4. Address: (List current place of residence and office addresses.)  
Local Residence: 1026 16th Street, NW., Washington, D.C. 20036  
Permanent Residence: 18 Wren Drive, Hilton Head Island, S.C. 29928  
Office Address: 260 Old Executive Office Building, Washington, D.C. 20500
5. Date and place of birth:  
March 17, 1946, Jackson Heights, New York
6. Marital Status: (Include maiden name of wife or husband's name.)  
Linda LeSourd Lader
7. Names and ages of children:  
Mary Catherine Lader (8), and Linda Whitaker Lader (5)
8. Education: (List secondary and higher education institutions, dates attended, degree received and date degree granted.)  
Harvard Law School (1968-72), J.D. (January, 1972)  
Oxford University (Pembroke College) (1967-68), Graduate Studies in Law  
The University of Michigan (1967-68), M.A. (May, 1967)  
Duke University (1962-66), B.A. (June, 1966)  
St. Petersburg (Florida) High School (1959-62)
9. Employment Record: List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)  
Special Assistant to the Director, Office of Management and Budget, 260 Old Executive Office Building, Washington, D.C. 20500 (February, 1993-current)  
President, Vice-Chancellor, and Professor, Bond University (including Director of certain of its affiliates and subsidiaries), Gold Coast, Queensland 4229 Australia (July, 1991-February, 1993)  
President, First Southern Corporation, 18 Wren Drive, Hilton Head Island, S.C. 29928 (Assets Management Company, owned and operated by Mr. and Mrs. Lader; during periods in which Mr. Lader was not employed by others, his business activities focused on this company, which will be managed by Mrs. Lader during his period of government service) (1978-current)  
President and Director, Business Executives for National Security, 601 Pennsylvania Avenue, NW., Washington, D.C. 20004 (June, 1990-July, 1991)  
Executive Vice-President, GOSL Acquisition Corp. (and Officer/Director of various subsidiaries, including Diamond Occidental Forests, Inc., and Puget Southern Properties, Inc.), Hilton Head Island, S.C. 29928 (subsequently dissolved) (September, 1986-December, 1988)  
Candidate for Democratic Nomination for Governor of South Carolina (January, 1986-June, 1986)

President and Professor of Business and Public Policy, Winthrop College (now University), Oakland Avenue, Rock Hill, S.C. 29733 (August, 1983-December, 1985)

President and Director, Sea Pines Company, Sea Pines Administrative Building, Hilton Head Island, S.C. 29928 (June, 1979-August, 1983)

Executive Vice-President, Sea Pines Associates, Hilton Head Island, S.C. (subsequently dissolved) (August, 1975-September, 1979)

Executive Assistant to the Chairman, Sea Pines Company, Hilton Head Island, S.C. (August, 1973-August, 1975)

Partner, Hartzog, Lader & Richards (Consultants in Conservation, Recreation, and Historic Preservation), Arlington, Virginia (subsequently dissolved) (June, 1974-December, 1985)

Law Clerk to Judge Paul H. Roney, U.S. Circuit Judge (Fifth Circuit Court of Appeals; subsequently Chief Judge, Eleventh Circuit), St. Petersburg, Florida, and New Orleans, Louisiana (September, 1972-August, 1973)

Part-time Instructor in Political Science, Eckerd College (formerly Florida Presbyterian College) (1972-73)

Associate, Sullivan & Cromwell, 125 Broadway, New York, N.Y. (May, 1972-September, 1972)

Assistant Professor of Political Science, Newton College (subsequently merged with Boston College), Newton, Massachusetts (September, 1971-May, 1972); Instructor (February, 1970-September, 1971)

Teaching Fellow (Law and Government), Harvard University, Cambridge, Massachusetts (February, 1970-May, 1972)

Summer Associate, Musick, Peeler & Garrett, 624 South Grand, Los Angeles, California (June-August, 1971)

Winter Associate, Nossaman, Waters, Scott, Krueger & Riordan, 445 South Figueroa, Los Angeles, California (January-February, 1971)

Winter Associate, Debevoise, Plimpton & Gates, 875 Third Avenue, New York, N.Y. (November-December, 1970)

U.S. Army (Active Duty, Fort Campbell, Kentucky, July-September, 1970; Fort Lee, Virginia, August-September, 1970)

Summer Associate, Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. (June-July, 1970)

Summer Associate, Law, Inc. (Legal Aid Office), Tampa, Florida (subsequently dissolved) (June-August, 1969)

Intern, *St. Petersburg Times*, St. Petersburg, Florida (June-August, 1967)

Summer Sales/Marketing Trainee, Richardson-Merrell Corp. Mid-West Region, June-August, 1966

10. Military Service: List any military service, including dates, rank, and type of discharge.

U.S. Army Reserves (Judge Advocate General Corps), September, 1969-September, 1975; Honorable Discharge as E-5

U.S. Army Reserves (Active Duty), 1970 (Ft. Campbell, Kentucky, and Ft. Lee, Virginia)

11. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.

Director, S.C. Jobs/Economic Development Authority (1983-85) Chairman, S.C. Governor's Small & Minority Business Council (1982-85)

Member, Governor Richard W. Riley's Jobs/Economic Development Task Force (1982-83)

Member, U.S. Senate Commerce Committee's Travel and Tourism Advisory Council (1983-86)

Trustee, South Carolina State Colleges (College of Charleston, Lander College, Francis Marion College) (1981-83)

Title Insurance Legal Adviser, U.S. Government's Acquisition of Big Cypress National Preserve (Florida) (1974-76)

Member, Land Use/Natural Resources Committee, Commission on the Future of the South (1973-74)

Organizer, Southeast Governors' Conference on Land Use (1974)

12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing, if any.

No.

13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, com-



pany, firm, partnership, or other business enterprise, educational or other institution.

(See #9, above, for principal Business Relationships other than those noted herein; Public Limited Partnerships in which I own less than a 5% interest have been omitted.)

Director, First Union National Bank of S.C. (1989-91)

Director, Lincoln Institute of Land Policy (1989-91)

Board of Visitors, Duke University's Sanford Institute of Public Policy (1980-91)

Limited Partner, Center Developers (1982-current)

Limited Partner, Ravenel Eiserhardt Associates (1981-current)

Limited Partner, Ravenel Eiserhardt Associates II (1983-86)

Director, First Carolina Bank (1980-82)

Director, Interstate Recreation Co. (S.C.) (1978-87)

Director, Interstate Recreation Co. (Fla.) (1978-87)

Director, Hilton Head Waterfun Park, Inc. (1978-85)

Trustee, S.C. State Colleges (College of Charleston, Francis Marion College, Lander College) (1981-83)

Director, South Carolina Chamber of Commerce (1980-82)

Director, Hilton Head Island, South Carolina, Chamber of Commerce (1979-82)

Trustee, Hilton Head Preparatory School (formerly Sea Pines Academy), South Carolina (1979-81)

Partner, Reception Center Store Partnership (1978-85)

Partner, American Sports Development Service (Corporate fund-raising representative for amateur athletics teams, including U.S. Ski Team, Gymnastics Federation) (1975-78)

14. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public, charitable and other organizations.

Phi Beta Kappa (named in 1966)

Omicron Delta Kappa (named in 1966)

Harvard Club of New York City (1972-current)

Australian Vice-Chancellors Committee (1991-93)

Chairman, Rhodes Scholarship South Carolina Selection Committee (1983-85)

South Carolina Council of College Presidents (1983-85; Chairman, 1985)

Duke University Alumni Association (1966-current; Director, 1989-91)

(Member, National Alumni Council, 1971-76)

Harvard Law School Alumni Association (1972-current)

The University of Michigan Alumni Association (1967-current)

President, Harvard Club of South Carolina (1989-90)

American Bar Association (current)

South Carolina, District of Columbia, and Florida Bars (current)

Registered South Carolina Real Estate Broker (current)

Young Presidents Organization (current)

Society of International Business Fellows (current; Director, 1991-92)

Board of Regents, Leadership South Carolina (1984-86) (Member, Alumni Association, 1982-current)

Urban Land Institute (1978-83)

U.S. Olympics South Carolina Committee (1983-84)

St. Luke's Episcopal Church, Hilton Head Island, S.C. (1972-current; Vestryman, 1979-83)

Board of Managers, Philip and Linda LeSourd Lader Foundation (1986-91)

Sierra Club (Life Member, 1974-current)

Common Cause (1975-current)

Sea Pines Club (Honorary Member, 1983-current)

Business Executives for National Security (1990-current; President, 1990-91)

Founder and Co-Host, Renaissance Weekends (1981-current)

15. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

Candidate for Democratic Nomination for Governor of South Carolina (1986)

Chairman, South Carolina Democratic Leadership Council (1980-83)

Chairman, South Carolina Democratic Party Business Policy Council (1986-87)

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member, Clinton-Gore Budget Advisory Group (October-November, 1992)

Campaigned for Candidate Bill Clinton in South Carolina (January and October-November, 1992)

Hosted South Carolina Reception for Presidential Candidate Al Gore (1988)

Campaigned for South Carolina Gubernatorial Candidate Mike Daniel (1986)

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.

#### 1992

Clinton-for-President Campaign (Plus \$12.61 Money Order purchased by Mr. Lader for his daughter, Mary Catherine, with funds raised by her children's art sale.)	\$ 1,000
Ticket to Inaugural Dinner	1,500
Ticket to Inaugural Gala	750
South Carolina Democratic Party Campaign Fund	1,000
Darrell Jackson-for-S.C. Senate	250

#### 1990

Jean Brown-for-Virginia House of Delegates Campaign	\$ 250
Clinton-for-Governor Campaign	1,000
\$500—Tom Campbell Congressional Campaign	500

#### 1988

Al Gore-for-President	\$ 100
Darrell Jackson-for-County Council	250
Chuck Fienning-for-County Council	250
Pritchard for S.C. Senate Campaign	200
South Carolina Democratic Party	85
Don Bonker-for-U.S. Senate Campaign	200
Heyward MacDonald S.C. Senate Campaign	100

(This list presents my best recollection of amounts above \$50 in the past five years; because certain of my financial records are being shipped with my other belongings from Australia, I have not exhausted all records of possible contributions.)

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Phi Beta Kappa (named in 1966)

Omicron Delta Kappa (named in 1966)

Pi Sigma Alpha (named in 1964)

*Who's Who in America* and other U.S., Australian, and international "Who's Who" volumes

Honorary LL.D., Limestone College (South Carolina)

Honorary Paul Harris Fellow (named by entire South Carolina District of Rotary International)

Honorary Member, Rock Hill and Hilton Head Island, South Carolina, Rotary Clubs (Named, respectively, in 1983 and 1982)

Leopold Schepp Scholarship (Harvard Law School, 1969-72)

Rotary International Scholarship (Oxford University, 1967-68)

Ford Foundation Honors/Masters Scholarship (The University of Michigan, 1966-67)

Duke University Scholarship (1962-66)

Belk Foundation Scholarship (Duke University, 1962-66)

Elks Scholarship (Duke University, 1962-66)

Various certificates and awards from education, civic, and management groups, typically given in appreciation for speeches

17. Published writings: List the titles, publishers, and dates of books, articles, reports, or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

"Undergraduate Legal Education," *Journal of Legal Education* (1972)

"Law and the Liberal Arts," *American Bar Association Journal* (1973)\*

"Law and the Liberal Arts," *Barrister* (1973)\*

"Beach Access and Recreation in South Carolina," Report Prepared for the South Carolina Department of Parks, Recreation and Tourism (1976)\*

Numerous outlines of law school casebooks; edited, published, and sold by (and under the name of) Cambridge Law Study Aids (Chicago, Illinois) (1969-1975)\*

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

All speeches I have delivered during this period were extemporaneous or based simply on notes or outlines. None were particularly relevant to the position for which I have been nominated.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including date(s).

No.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

My career has been principally devoted to senior management and restructuring of institutions, both business and non-profit, which faced particular management challenges. This private sector background has exposed me to diverse problems, tools, disciplines, and innovations in optimizing the performance of organizations.

(b) What do you believe in your background or employment experience affirmatively qualified you for this particular appointment?

I have devoted 20 years to "real-world, hands-on" practical management challenges, in both business and non-profit institutions, in the United States and abroad. Responsible for operations in diverse fields, I have had to make tough management, budget, and personnel decisions.

This experience has been complemented by pertinent insights from (a) academic study and teaching in law and government, (b) part-time service on appointed public boards and task forces, and (c) political activities, including candidacy for statewide public office.

During these past two decades, America's private sector has, certainly to a greater degree than the Federal government, re-defined missions, downsized, reorganized for results, and adapted to new social phenomena. Some of these management and budget practices should be adapted to, and embraced by, government. Perhaps my management and institutional restructuring experience can assist the Administration implement some of these concepts.

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Upon the President's request, I resigned as President of Bond University to return to Washington so that I might (a) prepare for the Senate hearing and, if confirmed, this job, and (b) serve as Special Assistant to OMB Director Panetta. If confirmed, I shall resign as an officer and/or director of all such business entities. I would remain as a shareholder of certain corporations noted herein and recuse myself from any matters which could constitute, or have the appearance of constituting, a conflict of interest.

2. Do you have plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

\*These items are not available because my copies are in file boxes currently being shipped from my previous office in Australia.



5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

### C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

First Southern Corporation, Inc., is a closely-held company, organized in 1978 and owned by my wife and me, engaged in management consulting and assets management. First Southern Corporation manages its fully-funded, qualified defined benefit pension trust, from which I shall continue to remain eligible for retirement benefits. If confirmed, I shall resign as President and Director of this company, but remain a shareholder.

My wife and I founded, and have co-hosted since 1981, "Renaissance Weekends," retreats for innovative leaders with the purpose of personal and national renewal. The White House Counsel's Office, the Office of Government Ethics, and OMB's Ethics Officer have approved a new structure for these programs which will be implemented if I am confirmed. A non-profit, independent educational organization, "The Renaissance Institute," headed by my wife (who has extensive experience in conference planning and education programs) will have control of and responsibility for the future programs and activities. First Southern Corporation, which will continue to hold the legal interests in the "Renaissance" name, mailing list, and related program items, will license these to The Renaissance Institute for \$1 per year during my period of government service. My involvement would be limited to periodic consultation to the Institute's directors and participation in the programs.

Also, a former business associate, Marc A. Puntereri, owes me \$5,000.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

Pursuant to the counsel of OMB's Ethics Officer, I shall, if confirmed, arrange to have sold all securities which could potentially raise a conflict-of-interest issue (except for stock in one company, described below) which are currently owned by my wife, my children, a trust of which they are the beneficiaries, First Southern Corporation (described above), and me. The proceeds will be invested in government obligations, diversified mutual funds, and various cash funds and/or instruments. Shares of AES Corporation, Inc., a private power producer, and First Southern Corporation, the aforementioned family-held company, will be retained, and I shall recuse myself from consideration of any matters which potentially could constitute a conflict of interest.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None. (See #2 above.)

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

Business Executives for National Security (BENS), a nonpartisan association primarily interested in the Department of Defense's management and programs, seeks—through seminars, publications, and communications with the Congress—to ensure a strong, affordable national defense, to bring more business-like management to the Pentagon budget, and to foster greater American consensus that "national security policy" should include the economy, education, and the environment, as well as military defense and foreign relations. I served as BENS' President in 1990-91 and have continued to be a member.

As a member of the U.S. Senate Commerce Committee's Advisory Council on Travel and Tourism (1983-86), I expressed opinions concerning relevant government policies, practices, and regulations.

As President of Winthrop College (now University) (1983-86), a public institution in South Carolina, I occasionally lobbied the State's General Assembly for institutional funding. During this period, on one occasion (probably in 1984), I informally made inquiry of a South Carolina State agency



official as to the status of a moratorium on sewage permits on Hilton Head Island and offered to provide any background information relating to my experience as a 10-year resident of that community and former President of its largest company. In my 1986 gubernatorial campaign, this conversation was alleged by one of my opponents to have constituted "lobbying," but the issue drew no further attention.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

If confirmed, I shall resign from all positions in which I serve as an officer or director of any corporation. Further, I shall cause to have sold all shares held by my wife, children, a trust of which they are the beneficiaries, and First Southern Corporation (with the exception of AES and First Southern Corporations, as noted above in #2). As to these remaining shareholdings or any other interests, I would recuse myself from consideration of any matters which could possibly pose a conflict.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

#### D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative proceeding or civil litigation? If so, provide details.

Yes. Sea Pines Company, GOSL Acquisition Corp., and/or its subsidiaries and affiliates were, in the normal course of business, involved in litigation while I was an officer of these companies. In no case was the cause of action specifically related to any action or omission by me; and all such litigation was deemed routine in the respective industries.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

#### E. FINANCIAL DATA

(Retained in Committee Files)

#### AFFIDAVIT

Philip Lader being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Subscribed and sworn before me this 4th day of May, 1993

Barbara M. Jones-Kauer  
Barbara M. Jones-Kauer  
Notary Public, District of Columbia  
My Commission Expires Aug. 14, 1994

## WRITTEN QUESTIONS FROM CHAIRMAN GLENN TO PHILIP LADER AND THE RESPONSES

### I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

*Question 1.* Why do you believe the President nominated you to serve as Deputy Director for Management of the Office of Management and Budget (OMB)?

*Answer.* My career has been principally devoted to senior management of institutions, both business and nonprofit, which faced particular challenges. This private sector background has exposed me to diverse problems, tools, disciplines, and innovations in optimizing the performance of organizations.

*Question 2.* Why did you choose to accept this appointment, and what particular qualifications will you bring to OMB?

*Answer.* When the President first discussed this position with me, I expressed my desire to be of service to his Administration in whatever way, in or out of government, he believed I could make the most meaningful contribution. His commitment to improving the Federal Government's management, to making it more accountable to American citizens, and to streamlining programs and systems in addition to Congress' recent emphasis on OMB's "management" role—makes this position particularly central to the government-wide mandate for change.

I have devoted 20 years to "real-world, hands-on" practical management challenges, in both business and nonprofit institutions, in the United States and abroad. Responsible for operations in diverse fields, I have had to make tough management, budget, and personnel decisions.

This experience has been complemented by pertinent insights from (a) academic study and teaching in law and government, (b) part-time service on appointed public boards and task forces, and (c) political activities, including candidacy for statewide public office.

During these past two decades, America's private sector has, certainly to a greater degree than the Federal Government, redefined missions, down-sized, reorganized for results, and adapted to new public demands. Some of these management and budget practices should be adapted to, and embraced by, the Federal Government. Perhaps my business experience can contribute to their design and implementation by this Administration; and this process might benefit from the lessons I have also learned in the more collegial context of university governance.

*Question 3.* Were any conditions, expressed or implied, attached to your nomination to be Deputy Director for Management of OMB?

*Answer.* No.

*Question 4.* Have you made any commitments with respect to the policies and programs which you will attempt to implement as Deputy Director for Management. If so, please explain.

*Answer.* I have made no commitments, other than to serve the President, to assist OMB's Director, and to devote myself fully to the continuing improvement of management of the Executive Branch of the Federal Government.

*Question 5.* Are there any issues involving OMB from which you may have to recuse or disqualify yourself? If so, what system will you establish to carry these out?

*Answer.* I believe that, after I have undertaken the resignations and divestitures referenced on my SF-278, I will not have any such interest, except as noted below.

Because of my disclosed ownership of stock of an independent power producer, I shall recuse myself from any consideration of issues pertaining, in any way, to that company. In such matters, and in any other case in which there may be the possibility or appearance of a personal conflict, I shall first seek counsel from OMB's Ethics Officer before participating in any relevant discussions.

### II. ROLE OF THE OMB DEPUTY DIRECTOR FOR MANAGEMENT

*Question 1.* What do you consider to be your basic role and responsibilities as Deputy Director for Management? In addition to a discussion of your financial management responsibilities, please describe your role and responsibility for the following functions specified in the CFO Act:

- Managerial systems, including the systematic measurement of performance;
- Procurement policy;
- Grant, cooperative agreement, and assistance management;
- Information and statistical policy;
- Property management;
- Human resources management;
- Regulatory affairs; and

—Other management functions, including organizational studies, long range planning, program evaluation, productivity improvement, and experimentation and demonstration programs.

**Answer.** Under the Chief Financial Officers (CFOs) Act, OMB's Deputy Director for Management is "the chief official responsible for financial management in the United States Government." [Title II, Sec. 201] In an even broader sense the Deputy Director for Management must be the Administration's champion for improving management, measuring performance, and improving accountability. He or she must also perform all functions and lead all projects assigned by the President or OMB Director.

The CFOs Act, evidencing this Committee's emphasis on enhancing the Federal Government's management capabilities, strengthened OMB's management functions by consolidating them under the Deputy Director for Management. With that authority, and now that the basic structure is in place, I intend, if confirmed, to work directly with senior Administration, OMB, and agency officials to assist in implementing the Act and improving the management of the Executive Branch of the Federal Government.

If confirmed, I would be supported in these efforts by three Presidential appointees—the Controller of the Office of Federal Financial Management (OFFM), the Administrator of the Office of Federal Procurement Policy (OFPP), and the Administrator of the Office of Information and Regulatory Affairs (OIRA)—and OMB's Assistant Director for General Management. Together, we would function as a team, working closely with OMB's Director and Deputy Director, with the objectives, among others, of improving Federal services, strengthening Federal accountability, and reducing the costs of government.

**FINANCIAL MANAGEMENT:** OMB's Deputy Director for Management's financial management responsibilities are established by the objectives and relationships set forth in the CFOs Act. Through OMB's Office of Federal Financial Management, the Chief Financial Officers Council, the agencies' respective Chief Financial Officers and Inspectors General, OMB's Deputy Director for Management is responsible for building a solid foundation of accurate, timely, and useful financial data.

The agencies have been expending significant resources to rectify past financial management problems and realize improvements in this area. Their goals include

- Integrating financial systems;
- Producing financial statements which merit clean opinions;
- Developing and implementing sound financial and performance measures;
- Producing meaningful and useful financial reports; and
- Safeguarding Federal financial resources.

OMB's Deputy Director for Management and OFFM's Controller are responsible for establishing priorities and policies to assist the agencies in the accomplishment of their missions.

**MANAGERIAL SYSTEMS INCLUDING THE SYSTEMATIC MEASUREMENT OF PERFORMANCE:** OMB's Deputy Director for Management should assist the agencies in their design and implementation of managerial systems and, especially, provide policy leadership and direction as the agencies develop comprehensive performance measures. The urgency of this latter role would be underscored if S. 20, the Government Performance and Results Act of 1993, becomes law.

Taxpayers have perhaps no greater expectation of their government than sound results, based on the improved management of government services and programs. Beyond statutory responsibilities, OMB's Deputy Director for Management should be the Administration's most persistent advocate of the continuing reengineering of each department and agency to ensure that taxpayers get the optimum levels of service quality and cost-effectiveness.

**PROCUREMENT POLICY:** OMB's Deputy Director for Management is to provide leadership and direction—on behalf of OMB's Director—to the Office of Federal Procurement Policy (OFPP). If confirmed, I would particularly assist the OFPP Administrator by (a) bringing a business perspective to the oversight of OFPP's work, and (b) ensuring that OFPP's efforts are integrated with, and supported by, other government-wide management reforms and budget initiatives.

Such reforms include

- Improving the processes by which contracts are planned, awarded, and administered;
- Minimizing the paperwork and other burdens associated with procurement regulations;
- Allowing the Federal Government to employ more flexible procurement techniques commonly available to private-sector purchasers of goods and services;
- Increasing the user discretion in procurement decisions which might reduce costs and improve service to the taxpayers; and



- Assisting with the recruitment and training of a professional cadre of contracting officers and procurement personnel throughout the agencies.

**GRANT, COOPERATIVE AGREEMENT, AND ASSISTANCE MANAGEMENT:** Management of Federal assistance programs is guided by several OMB Circulars which fall under OFFM's purview and which address cost accounting principles, administrative requirements, and audits of Federal assistance.

If confirmed, I would advise OMB's Director as to guidance for Federal agencies and their grantees that can improve their grant, cooperative agreement, and assistance management programs' administration. These responsibilities extend, I believe, to developing, in cooperation with the grantee community, more efficient administrative mechanisms. Committed to developing incentives for controlling overhead costs—especially at colleges and universities—I would work to maximize the proportion of limited grant and other resources which can be made available to fund program initiatives.

**INFORMATION AND STATISTICAL POLICY:** OMB's Deputy Director for Management provides leadership and direction to OIRA on behalf of OMB's Director in this area. At one time, it was widely believed that the Federal Government's information technology practices and resources were "state-of-the-art," but few knowledgeable commentators would today make that claim.

The President's "reinventing government" initiatives and the Congress' and Administration's common desire to improve the management of the Federal Government cannot be achieved without significant improvement of its information technology capabilities. Although the Federal Government will invest \$25 billion in information technology systems and operations in FY 1993, the value of these expenditures must be optimized by coordinating and communicating the respective agencies' efforts, reviewing their plans, and ensuring that the new systems will be user-friendly, service-oriented, and innovative.

Rather than simply performing the same processes, creating the same work-products, faster and in greater volume, each agency's information technology investments must reflect a rethinking and reengineering of its mission, methodology, and product end-uses. OMB's Deputy Director for Management should, beyond his statutory requirements, be an outspoken advocate of this approach to information technology policy.

IRM advances can best be achieved by a partnership between OMB and the agencies. OIRA has neither the authority nor the resources to implement the endless steps in this process. IRM officials in each agency must make the day-to-day decisions and ultimately be held responsible for ensuring that IRM functions serve that agency's program officials. But a centralized information management program should enable the agencies to share their thoughts and learn from others' successes and missteps.

OMB's role in statistical policy has several objectives. The quality of public policy decisions often depends on the accuracy and sufficiency of information. The effective formulation and administration of regulations similarly requires extensive, current, and accurate information. As the nation's biggest "generator," user, and disseminator of information, the Federal Government also has a responsibility to ensure that government information is made available to the public through a diversity of sources in a timely and equitable manner.

Statistical information is produced by more than 70 Federal agencies. OMB's Deputy Director for Management must repeatedly communicate to these agencies the importance of their attention to these functions, must optimize the compatibility of such data and systems, and must oversee OIRA's efforts to assist agencies in obtaining the information they need while reducing the burden of that collection process on the public.

**PROPERTY MANAGEMENT:** The Federal Government's property management failures have been regularly cited by the General Accounting Office (GAO) and others. Although the Federal Property and Administrative Services Act of 1949 attempted to consolidate responsibility for property management under the General Services Administration, this authority has been diffused across departments and agencies by subsequent statutes. In its September 27, 1991, report on this subject, GAO concluded, for example, that this fragmentation of property management authority has resulted in the absence of a government-wide asset disposition policy and the lack of any central control over asset disposition activities.

To address this problem—and to minimize the financial and service consequences of sub-professional property management—OMB and GSA, in partnership with the departments and agencies, as well as Congress, must develop clear policies on, and oversight mechanisms for, the acquisition, use and disposal of Federal property. OMB's part in this process is most appropriately led by its Deputy Director for Management.



**HUMAN RESOURCES MANAGEMENT:** OMB's Deputy Director for Management, working with the Director of the Office of Personnel Management (OPM), provides OMB leadership and direction to the development of human resources management policies. This is accomplished, in part, through the Deputy Director for Management's budget, as well as management, oversight of OPM.

OMB's Director approves critical positions under the Federal Employees Pay and Comparability Act of 1990 (FEPCA) and serves as one of three members of the President's Pay Agent, which was established to advise the President on locality pay, pay areas, and recommended pay levels. The Deputy Director for Management would advise OMB's Director on these matters.

Currently, OMB is working closely with OPM, which chairs the relevant Health Care Reform Task Force working group, on the relationship of the Federal Employees Health Benefits (FEHB) program to a reformed health care system. On these matters, too, the Deputy Director for Management would advise OMB's Director.

**REGULATORY AFFAIRS:** The Deputy Director for Management, on behalf of the Director, provides leadership and direction to OIRA in exercising its responsibilities under the Paperwork Reduction Act, and Executive Orders Nos. 12291, 12498, and others which may be relevant.

President Clinton's January 21st memorandum to OMB Director Panetta, and Director Panetta's January 22nd memorandum to the heads of regulatory agencies, stated that, pending completion of a review, the existing Executive Orders pertaining to regulatory management will continue to apply. If confirmed, I would take part in that review and would encourage OIRA's Administrator to strengthen OIRA's collegial relationships with the Federal agencies and with Congress.

**OTHER MANAGEMENT FUNCTIONS, INCLUDING ORGANIZATIONAL STUDIES, LONG-RANGE PLANNING, PROGRAM EVALUATION, PRODUCTIVITY IMPROVEMENT, AND EXPERIMENTATION AND DEMONSTRATION PROGRAMS:** OMB's Management and Budget Reviews (M&B Reviews), soon to commence as a precursor to the annual budget cycle, and the National Performance Review (NPR), led by the Vice President and his staff, will incorporate organizational studies and the other aforementioned efforts. If confirmed, I would play substantive roles in both these processes.

OMB's M&B Reviews will examine the budget requests, FTE levels, existing and proposed contracts, and the policy foundations of many programs of all major Federal Government agencies. The NPR is examining the structure and programs of Federal agencies, is developing both short- and longer-term proposals for improving government services and reducing associated costs, and is formulating pilot projects for experimentation to address perceived weaknesses.

The aforementioned management functions (i.e., organizational studies, long-range planning, etc.) must be ongoing efforts, however, and OMB's Deputy Director for Management should take the lead role within OMB in initiating and overseeing such projects. Planning, productivity improvement, and experimentation and demonstration programs are also important elements of the Government Performance and Results Act (S. 20), pilot projects for which will be identified in OMB's M&B Reviews.

**Question 2.** What objectives would you like to achieve in your tenure as Deputy Director for Management of OMB, and why?

**Answer.** My central objective as OMB's Deputy Director for Management would be to serve the President and to be of significant assistance to OMB's Director. They have expressed to me their support for my objective, in this capacity, of championing, assisting, and cajoling, across the entire Executive Branch, the efforts that would result in a government that is customer-driven, less hierarchical, more innovative, more efficient, and capable of responding more quickly and effectively to citizens' changing needs.

If confirmed, I would work together with OMB's Director and Deputy Director, as well as my colleagues in the agencies and in OMB, not only to define, but to execute a long-term management agenda for the Executive Branch. These goals include redefining programs, down-sizing, reducing costs, and reorganizing for results. Since these objectives are long-term, I hope that I could, at least, establish some pilot and demonstration projects which might lead the way.

Within OMB, we will also look closely at what we do, why we do it, and how we can do it better and smarter. Director Panetta and Deputy Director Rivlin have launched an internal study of OMB, called "OMB 2000," as part of the Vice President's National Performance Review. It is examining not only OMB's internal structure, but also OMB's relationship with the Congress and the agencies. If confirmed, I would play an active role in this process, which might result in improved OMB relationships with the agencies.

We are at a crossroads. No electorate in modern history has been as anxious for major changes in government management. Given these expectations, whatever ex-

pertise we apply will fail if we redirect policy yet execute poorly. Cumbersome, outdated, and inappropriate structures, systems, and managerial practices inhibit the government's ability to make and implement policy. With the help of Congress and Executive Branch colleagues, OMB's Deputy Director for Management can address this need for management improvement.

*Question 3.* What is your understanding of your organizational relationship to the OMB Deputy Director? How would you describe the division of authority and duties between the Deputy Director and the DDM?

*Answer.* Director Panetta and Deputy Director Rivlin, who share a collegial management style, have invited me, if confirmed, to work with them as a team. We each bring different perspectives to OMB and are committed to drawing on each other's strengths. The Director's extensive Congressional experience, the Deputy Director's tenure as Director of the Congressional Budget Office and work as an eminent economist, and my management background constitute a varied experience base to lead OMB and advise the President.

Formally, under OMB's governing statute (as amended by the CFOs Act), the Deputy Director carries out the duties and powers prescribed by the Director and acts as the Director when the Director is absent or when the office of Director is vacant. The Deputy Director for Management, subject to the direction and approval of the Director, performs functions related to financial and general management, procurement policy, and regulatory and information policy, as well as any other functions prescribed by the Director.

*Question 4.* Under the CFO Act, the Deputy Director for Management is charged with monitoring the financial execution of the budget. More generally, it is often said that for OMB's management functions to be effective, they must be integrated with and supported by the office's budget functions. What type of interaction do you anticipate between the Management and Budget sides of OMB with respect to financial management and general management, and what will you do to establish more effective budget and management staff relationships and to embed management oversight in budget examination review?

*Answer.* OMB's Director, Deputy Director, and I are fully committed to integrating OMB's "M" and "B" functions and personnel. In the proposed M&B Reviews, for example, project teams consist of professionals from each "side" of OMB. In developing performance measures, colleagues will similarly have joint responsibilities; and if confirmed, I would encourage, and expect, budget examiners to incorporate performance data in their reviews of Federal programs. As the Director has testified, OMB diminishes its effectiveness when management and budget are viewed as two separate functions.

On a personal level, the Deputy Director and I are encouraging more interaction between staff. While serving as a Special Assistant to the Director and Deputy Director for Management-Designee, I have co-hosted, with the Deputy Director, small "brown-bag lunches" with OMB personnel; and if confirmed, I would continue to do so. In this process, and by regular, casual visits to staff offices, I would encourage all OMB staff, across any invisible "management" or "budget" line, to become better acquainted with colleagues and their responsibilities. The Deputy Director and I would call upon staff for help based on their particular skills rather than the "office" in which they are housed, and we would regularly use cross-cutting teams for projects.

*Question 5.* What role do you anticipate playing in the selection of individuals to appointive and career positions in OMB, and specifically, OIRA, OFFM, and OFPP?

*Answer.* I would advise OMB's Director in the selection of highly qualified individuals for nomination to the Presidential-appointment posts. As to career positions in OIRA, OFFM, and OFPP, and General Management, I anticipate direct involvement in recruiting, evaluating, hiring, and retaining talented people for these jobs. As to other OMB positions, I would advise the Director and Deputy Director as requested.

### III. OMB MANAGEMENT ROLE

*Question 1.* What do you believe are the major responsibilities and challenges facing the Federal government with regard to management, and how do you propose to address them?

*Answer.* The major responsibilities and challenges facing the Federal Government today are (1) improving the quality of service to the public; (2) streamlining and reducing the cost of government operations; (3) making government more accountable and accessible to the American people; and (4) ensuring that taxpayer dollars are not misspent.

OMB must work with the Cabinet Secretaries and other agency heads in a process of reengineering: examining all processes and work-products, asking "Why are

we doing this?," "What would happen if we were not doing this?," and "How could we do this better?" Only by the perpetual examination of the governmental process, from the citizen's as well as the President's perspective, can lasting management reform be realized.

The sheer size of the Federal Government, as well as current organizational trends, constitute major challenges. Around the world, big corporations have been humbled in recent years; value creation in the private sector is most in evidence at firms which have relentlessly fostered small-company systems, speed, and spirit. The Federal Government must undertake serious reengineering, adapt its systems infrastructure to contemporary standards, and embrace many entrepreneurial techniques to treat citizens more like "customers" to be prepared for the demands of a new century.

With an integrated budget and management oversight process, OMB can—through pilot projects resulting from design consultation with the agencies, revision of policies which thwart competition and similar hallmarks of entrepreneurial government, and the use of performance measures and other techniques to focus on results—help begin what inevitably must be a long-term transformation.

*Question 2.* What do you intend to do to strengthen the management capacity and mission of OMB with regard to making effective improvements in the management of Federal agencies?

*Answer.* The first step to strengthening OMB's management capacity and mission is to analyze them in the context of this Administration's objectives and personnel. OMB's recently launched internal study, "OMB 2000," will be a critical review, by OMB staff at all levels, of all aspects of OMB's internal workings and external relationships with the agencies, Congress, and the public. As a result of this process, the Deputy Director's and, if confirmed, my recommendations will seek to strengthen the organization's management capacity and mission, and the Director's subsequent implementation decisions will determine the ultimate answer to this question.

The National Performance Review, directed by the Vice President and his staff and assisted by OMB liaisons, is one of the Administration's principal programs to address management improvements. In addition to the NPR's agency and system reinvention teams, all major agency heads have established their own internal redesign teams and "reinvention labs." After the NPR report is presented to the President, I shall, if confirmed, work closely with the agencies to implement their NPR management recommendations.

Meanwhile, OMB continues day-to-day management improvement efforts, including developing program and financial performance measures, improving agency financial systems, achieving the President's goals of reducing FTEs and the number of advisory committees, and implementing other initiatives described in the President's FY 1994 Budget. If confirmed, I would devote my major efforts to directing these continuing projects.

*Question 3.* Many commentators have said that improving government management and performance requires governmental reorganization and reform. What are your views on the need for government reorganization and consolidation and how would you pursue it?

*Answer.* Over the past decade, America's most successful companies have restructured themselves to meet global competition by eliminating unnecessary layers of management and putting more power in the hands of front-line workers. The Administration is undertaking a similar re-examination of the Executive Branch through the National Performance Review, and its recommendations are likely to include various reorganization and reform measures.

Structural obstacles which impede effective management, raise costs, and hamper the delivery of quality service warrant OMB's close attention. Some Federal institutions reflect the needs of earlier eras, while others duplicate or compete with one another, lack accountability, are too unwieldy in size, or are overwhelmed by overly prescribed process and organizational requirements. Reorganization can be an important reform if it removes these structural obstacles, but should not be an end in itself. If confirmed, I would assist the Vice President and OMB's Director in this analysis and implementation of the NPR's recommendations. Close collaboration with the Congress will be critical to the success of these undertakings.

Reducing overhead and streamlining the Federal field structure may be central to achieving the President's goal of reducing costs while improving services and improving government performance. For example, approximately 75% of the Federal work force—1.5 million of 2.2 million civilian employees—work in more than 34,000 field offices across the country, and I understand that some of them have not changed much since the 1930's. Technological advances and consolidation of certain functions may permit significant cost reductions while improving service to citizens.



The Federal Government can benefit from reengineering efforts examining processes, implementation procedures, and policies impacting management—without any fundamental reshuffling of boxes. The entrepreneurial spirit in government is likely to result less from organizational revision than from increased accountability for results, improvements in financial systems and procurement policies, and similar basic management emphases.

**Question 4.** Vice President Gore is heading up a six-month "National Performance Review" of the Federal Government.

a. What is the scope of issues under review by the National Performance Review, and what major management areas are not being examined?

b. What are your responsibilities with respect to the National Performance Review? How actively are you involved on a day-to-day basis?

c. How many OMB staff persons have been assigned to the National Performance Review? At the conclusion of the Review, who will be responsible for implementing its proposed reforms, and what will OMB's continuing role be?

**Answer.** The National Performance Review (NPR) is examining twenty-two departments and agencies and eleven systems, or cross-cutting functional areas. It incorporates both the Vice President's review teams, all of which are assisted by agency-specific and OMB liaisons, and intra-agency redesign teams. Highly regarded outside advisers, led by David Osborne, who was coauthor of *Reinventing Government*, are providing counsel on quality management, down-sizing, performance-based budgeting, and State performance reviews.

Although the NPR's scope is quite comprehensive, it will be limited by its relatively short duration. Also, in health care, for example, the NPR will defer to the recommendations of the Health Care Reform Task Force, which is completing its intensive review. Because the NPR is only now completing its "Blue Sky" phase of considering wide-ranging management improvement proposals, the final recommendations cannot be predicted.

The NPR, however, is merely the most visible element of this Administration's intended continuing reengineering plan. Some specific cost savings are likely to be identified; various immediate and mid-term management improvements and policy changes probably will be recommended; and various long-term reforms undoubtedly will be proposed. For example, as part of the NPR's agency-specific "reinvention laboratories," Congressional and administrative waivers of certain regulations may be suggested to permit experimentation that is likely to improve customer service, increase accountability for program results, and enhance program effectiveness. Ideas and policies obtained from successful labs can subsequently be introduced throughout the Federal Government.

Although the Vice President's staff devised the methodology for and directs the NPR, he and they have consulted regularly with me. I have joined the Vice President in his "town meeting" visits to Cabinet agencies, met regularly with the NPR liaisons from the agencies, and observed the first round of each NPR team's "toll-gates." The NPR Policy Group which I shall chair—comprised of the President's Deputy Chief-of-Staff, the Vice President's Senior Domestic Policy Adviser and Press Secretary, the Domestic Policy Council's Deputy Director, and me—will meet for the first time over 16 days in June to review preliminary findings and recommendations presented by the teams. The Policy Group will then work closely with the Vice President to shape the recommendations to reflect his views, to vet the preliminary conclusions with agency heads, and to prepare a report for submission to the President.

OMB liaisons to the NPR teams, both full-time and part-time, have been sharing their extensive knowledge of agency histories, budget realities, and prior studies. More than 60 OMB staff are involved in the NPR in some way.

Implementation of the NPR's recommendations will likely require a variety of legislation, administrative actions, and inter-agency projects. The Vice President and his staff will determine the strategy, and it is likely that OMB will play a major role in the mid- and long-term implementation efforts.

**Question 5.** When David Osborne and Peri Arnold testified before the Committee on Governmental Affairs on March 11, 1993, they forcefully argued that governmental reform depends not so much on structural reorganization as on substantive reform of governmental missions and service provision. What are your views?

a. What are your views on the notion of "reinventing government" to make it more entrepreneurial and customer driven?

b. Please describe any plans you have for incorporating "reinventing government" principles into the management of Federal agencies.

c. What are your views on Total Quality Management (TQM) as a means to better meet the needs of the government's citizen customers?



*Answer.* I agree with David Osborne that citizens would be better served if this Administration focuses its efforts on substantive reforms, management improvement, and service delivery rather than broad-scale structural reorganization. Through the NPR and my continuing cajoling, if I am confirmed, agencies would be encouraged to reexamine their overall missions, reengineer their internal processes, incorporate new technologies and customer-friendly work practices into their operations, adopt performance measures and benchmarks, abandon certain anachronistic practices, and experiment with pilot projects to adapt themselves to citizens' expectations of a 21st-Century government.

When the President announced the National Performance Review, he said, "It isn't written anywhere that government can't be thrifty or flexible or entrepreneurial." These characteristics of America's most successful corporations and nonprofit organizations should become the hallmark of the Federal Government, too.

Though I do not believe all of Mr. Osborne's State and local government illustrations in *Reinventing Government* are precisely applicable to the Federal Government, I do agree with many of his premises. Some of these longstanding management principles can be found in the writings of management authorities like Peter Drucker and the scholars of public administration.

For example, Mr. Osborne calls for discarding elements of budget systems which encourage managers to waste money, modernizing aspects of a civil service system developed for earlier times, and streamlining bureaucratic structures erected in the 1930's. He urges that such industrial-age systems be replaced with more decentralized, more entrepreneurial, more responsive organizations designed for today's rapidly changing society which has incredible technological tools which can be more productively utilized in governance.

Some tenets of this philosophy of public management merit earnest scrutiny by OMB and the agencies, as the Vice President urges:

- Encouraging competition rather than monopoly;
- Allowing organizations to be driven by their missions, not their "rules";
- Funding outcomes rather than inputs;
- Meeting primarily the needs of the customer, not the bureaucracy;
- Concentrating on earning, not just spending;
- Investing in prevention rather than cure;
- Decentralizing authority; and
- Solving problems by leveraging the marketplace, rather than simply creating public programs.

These principles should not be applied "wholesale." A principal challenge for all policy-makers and managers in this Administration, including OMB's Deputy Director for Management, will be the selective application of this philosophy.

If confirmed, I would join Vice President Gore and OMB's Director and Deputy Director in their respective work with each agency head to devise a shared management agenda that reflects this "entrepreneurial government" approach. The agency heads will be asked to identify and commit to completing specific management improvements during the next four years. OMB will lend support to this effort and periodically review each agency's progress.

I strongly support quality management efforts which involve and empower the whole work force to improve services and products on a continuing, customer- and legislative-driven basis. As President Clinton demonstrated as Governor of Arkansas, total quality management—with strong commitment from the top of each agency—can work in government. It can make a huge difference, not only to the Government's citizen-customers, but also to the people who work for the Government as well.

The Federal Quality Institute should play a central role, with OMB, in developing a quality management culture within the Federal Government. Yet it may be best accomplished by a vocabulary and methodology consistent with TQM principles, but without the "buzzwords." As in companies, these objectives can only be accomplished by long-term behavioral changes.

*Question 6.* Until twenty years ago or so, OMB had an active role in designing, or approving the design, of departments, agencies, and corporations. Today, this responsibility has been largely shifted to the agencies and Congress. Thus, situations arise where major reorganizations of the government take place and OMB is not a player or at best, a minor, reactive player.

Most recently, the creation of the Resolution Trust Corporation (RTC) and concerns about Government Sponsored Enterprises (GSE's) have renewed debate about government use of hybrid entities with uncertain authority, ambiguous lines of accountability, and confusing civil service status.

a. What are your views on this debate?

b. What is your understanding of OMB's knowledge and capacity, and what more it should have, to design government corporations, GSE's and even basic agencies?

*Answer.* The GSE's unique roles in the Federal Government, their size, and the substantial growth of their financial liabilities have raised legitimate concerns. In addition to the recent enactment of legislation establishing Federal financial regulation of GSEs, it is possible that additional GSEs or hybrid entities will be proposed.

Although urgent problems or government-sponsored research can be addressed through the flexibility occasioned by distance from regular government processes, reduced oversight and diffused accountability potentially raise enormous problems. The proper balance must be struck on a case-by-case basis. Key principles should include (a) strict accountability to the Executive Branch and Congress, (b) full exposure in the President's Budget of any hidden liabilities, and (c) prudent standards to ensure financial safety.

On the one hand, it is premature for me to specify what precise role OMB would play in such matters. On the other hand, it is essential that OMB assist in the design of these and other entities and new programs. As Director Panetta has told this Committee, OMB can play a valuable role as an expert on cross-cutting issues and financial management questions. It can also advise the President in the manner of an honest broker mediating between the particular interests of the relevant agencies.

This Committee has had extensive experience in reorganization matters. If confirmed, I would work with OMB's Director, who has a profound understanding of the legislative process, to assert OMB's role in these matters and to emphasize collaborative efforts with the Committee in the crafting of new governmental and quasi-governmental agencies and potential reorganizations.

*Question 7.* What are your views on the President's Council on Management Improvement (PCMI)? Would you recommend continued use of such a council? How would you use it?

*Answer.* I understand that each President since President Eisenhower in 1957 has had some instrument for convening "senior management officials" of the Cabinet Departments and major agencies. Under President Carter, it was called the President's Management Improvement Council. The PCMI was established by President Reagan in May 1984 and reaffirmed, with an expanded membership, by President Bush in October, 1992, to improve management of Federal departments and agencies.

The PCMI and its predecessor organizations have served as a forum for government-wide communications on agency management issues, and the Council has been used to develop and implement a shared management agenda. It seems to me that these valuable functions should be continued by the PCMI or an equivalent organization.

The PCMI can also play a key role in implementing recommendations of the Vice President's National Performance Review. As in the past, the Council can be used to focus on reengineering methods and objectives: for example, reducing management costs, streamlining administrative functions, piloting innovative strategies of shared services, and eliminating burdensome internal regulations.

In addition, if confirmed, I would look to each PCMI member, with the understanding of his or her agency head, to be a focal point for management change in that agency. OMB cannot, and should not, perform the management function at the agency level. Working in concert with the Secretary and the Assistant Secretary for Management, or equivalent, I would seek to develop an agency-specific management improvement agenda, which could be communicated through the PCMI.

*Question 8.* A frequently proposed management reform would involve the delegation of more of the operational tasks in federal government to professional, accountable career managers. The Volcker Commission recommended reducing the number of political appointees by 1000 and strengthening the role of federal career managers. What are your thoughts on this proposal and the balance of central direction with delegation of responsibility?

*Answer.* Government agencies, like other organizations, function best when people at the operating level know what they are supposed to do, have the authority to get it done, and are held accountable for results. If satisfactory organizational performance measures can be identified, career, as well as political, managers can be held responsible for results.

Central policy direction is important to ensure that policies are communicated clearly to those who will carry them out. At the same time, extra layers of bureaucracy, whether political or career, are not essential to, and sometimes even jeopardize, success.

The growth in the number of intermediate positions over the years establishes a *prima facie* case for each agency to analyze its organization carefully. Political and

career positions should be examined together as the agency determines the most efficient organization to accomplish its mission. Such an organization should provide a streamlined structure that concentrates resources on getting the job done, minimizes levels of review, and holds individuals accountable for articulated results.

It is simply too early to say how many, if any, politically appointed positions might be eliminated in such a streamlining effort. While the objective of strengthening the role of career managers is excellent, I would not be prepared to embrace the Volcker Commission recommendation of a one-third reduction in political positions at this time.

**Question 9.** Among OMB's Federal management responsibilities are requirements to report to Congress on agency compliance with various management statutes, for example, the Federal Managers' Financial Integrity Act, the Debt Collection Improvement Act, and the Prompt Payment Act. For several years, these reports were included as appendices to the *Management of the United States Government* volume, prepared as a part of the President's budget submission to Congress. In recent years, the President's budget submission has consisted of a single volume, which omitted much of the material formerly found in the multiple volume submission, including the mandated reports.

a. What are your views on the value of that discontinued Management Report?

b. What are your views on the value of producing a consolidated management report that could combine OMB's various management reporting requirements?

c. Would you favor including the annual financial management status report required by Sec. 301 of the CFO Act in such a consolidated management report?

**Answer.** I expect that the Director, Deputy Director and I—if confirmed—will want to look at how the Budget is put together from a presentation and printing standpoint. It is possible that OMB will go back to separate volumes, and it may be appropriate to consider some form of separate management report. But we must ensure that such a separate report does not detract from the Director's position, which I share, that we must integrate OMB's budget and management functions. I would welcome the Committee's views on this subject.

If confirmed, I would eagerly investigate combining various management reporting requirements, such as the Prompt Pay, Debt Collection, and other accountability reports. As part of its own internal review, OMB is considering alternatives for presentation of financial management information. Eliminating unnecessary reports and consolidating others would benefit OMB, the agencies, the Congress, and the public. To the extent that such proposals would require legislative action, we would prepare appropriate amendments for the Congress' consideration.

A description and analysis of the status of financial management in the Executive Branch, required by Section 301 of the CFOs Act, can fit into the President's Budget submission to Congress, particularly since it is the foundation of the five-year financial management plan which is also required by Section 301. Other accountability requirements, particularly the agency status component called for by the CFOs Act, may be more suitable for a separate report to Congress. If confirmed, I would review how mandated reports might be best consolidated and submitted to Congress in a timely fashion.

**Question 10.** Over the last several years, an OMB management priority has been the effort to correct problems in management "high risk" areas. What is your view of this effort? Should it be continued? If so, how many full-time OMB staff do you believe should be dedicated to the high risk initiative? Do you believe that performance in this area has been satisfactory?

**Answer.** Through the high risk program, as noted in the General Accounting Office's August, 1992, report (AFMD-92-63), OMB has been able to strengthen considerably the management of Federal programs. This approach, supplementing existing management control programs, injected some critical elements: top-level agreement between OMB and the agencies on the most serious problems and options for improvement; continuing OMB monitoring of agency progress; discrete consideration of high risk funding needs during the budget formulation and execution processes; and agency accountability through publication of high risk tables in the President's Budgets.

OMB's present course is to maintain its current level of effort in this program. President Clinton's FY 1994 Budget Appendix, continuing the practice started in the FY 1992 Budget, includes the progress report on agency efforts to correct high risk areas. The Administration's government-wide goal should be to establish better management procedures which will make it possible to discover problems early and to provide for comprehensive remedies.

Future staffing decisions will be made after the Director and I, if confirmed, have had an opportunity to review OMB's staff allocation and responsibilities.



*Question 11.* What should be done to validate progress in "high risk" areas, keeping in mind that the Department of Housing and Urban Development's (HUD) earlier Federal Manager's Financial Integrity Act (FMFIA) reports indicated that its management problems were under control?

*Answer.* OMB staff monitor agency actions to correct high risk areas and annually, in the President's Budget, present a progress report on agency actions. Reporting in the President's Budget ensures continued high-level attention to correcting the Government's major management problems. The most recent progress report on high risk areas is included in President Clinton's FY 1994 Budget transmittal.

OMB does have concerns, based on a GAO report (AFMD-92-63), that some information reported by the agencies may be overly optimistic. In response to GAO recommendations, OMB now (a) requires of agencies better documentation supporting their progress, and (b) independently confirms agency-reported progress by consulting extensively with agency Inspectors General and GAO. Audits of agency financial statements also provide an independent report on the state of the agencies' internal controls.

More needs to be done to assure that agency FMFIA reports reflect the true state of management controls to avoid the problem that occurred at HUD in the 1980's. OMB is working with the agencies and GAO to make FMFIA assessments an integral part of agency management and to make the annual report a source of useful, accurate information for agency managers.

*Question 12.* What should be the role of the IG in the formulation of, additions to, and deletions from the "high risk list"?

*Answer.* The Inspector General (IG) plays an important role in the high risk program. Given the scope of high risk areas, and limited OMB staff, OMB counts on both GAO's and IGs' working knowledge of agency programs and operations to help make decisions regarding the composition of the High Risk List.

This includes, as suggested in a previous answer, the validation of agency reports on progress in addressing high risk areas.

*Question 13.* What are your views on the "SWAT Team" approach to correcting "high risk" management problems?

a. What are your views on OMB's role in this process, possible improvements, and possible alternatives?

b. Bearing in mind that the SWAT Team approach is a reactive process, how can OMB become more pro-active in heading off management problems before they occur?

*Answer.* SWAT Teams and Review Teams are special, joint agency-OMB efforts to correct weaknesses and other management problems in selected areas. In the last three years, eighteen SWAT Teams and eighteen Review Teams were formed by OMB.

Senior OMB staff are currently considering how to integrate the joint agency-OMB review concept into OMB's ongoing activities, particularly given the Director's and Deputy Director's emphasis on OMB's management role. Generally, however, OMB's goal should be to have agencies establish better management procedures which make it possible to discover problems early and to provide for comprehensive remedies.

If a concerted short-term effort is necessary, it should be focused, for example, on correction of an urgent management weakness or on weaknesses where the corrective action can be generalized to other agencies.

*Question 14.* Central agencies make policies and provide services. There is a great deal of debate about the extent to which the government should centralize the provision of services such as financial management, personnel, and facilities management.

a. What criteria do you think should be used to determine the extent to which such services should be centralized or devolved to agencies?

b. Should agencies be granted the flexibility to choose alternative providers of services currently provided by GSA and OPM whether in the public or private sectors?

c. There has been a trend in recent years at the State and local government level and in some countries to separate central agency policy and regulatory functions from day-to-day direct service provision to better focus on critical strategic decision-making. Should this approach be considered for GSA, or any other central management agency?

d. Are there any functions that by their nature cannot or should not be devolved, e.g., centralized acquisition of off-the-shelf products?

*Answer.* Services should be provided centrally only when one or more of the following conditions are present:



- There are economies of scale which permit consolidation of services to achieve overall savings that could not otherwise be realized by the Government;
- Unique expertise is required, making it impractical to have multiple providers or services; or
- The procedures necessary to acquire and deliver the services present such major barriers to entry that replicating the procedures would be wasteful.

For those services that do not meet these criteria, agencies should be free to procure services from any provider as long as the action is cost-effective and consistent with legal and policy objectives (e.g., "Buy American" provisions or recycled content standards).

There are several merits to separating the policy-making and regulatory function from the common service provider. This approach avoids potential cross-subsidies, constrains the use of regulatory authorities to promote centralized services, and eliminates any real or even perceived conflicts of interest.

Separating the functions allows the policy-making and regulatory organization to focus on the effectiveness of the policies without having to manage or defend a particular form of service delivery. Having the service providers independent of the policy/regulatory functions clarifies their role as service provider and forces the provider to focus on serving the customer.

Developing and prescribing policies and regulations/guidelines are functions that, by their nature, should be performed centrally. It is important, however, that this be done in partnership with those to be affected. This is necessary to ensure consistency with other policies and to establish standards within the Executive Branch.

#### IV. FINANCIAL MANAGEMENT

*Question 1.* Please describe your views on the importance of financial management improvement in general and the financial management requirements of the CFO Act in particular, and the relative importance you accord these efforts in relation to your other priorities.

*Answer.* It is difficult for a businessman to comprehend the current state of the Federal Government's financial management. Important decisions often seem to be based on incomplete or late financial information. Senior financial officers are sometimes not included in policy formulation. But I am pleased to note the progress that has been made by implementation of the CFOs Act. Financial management will certainly be one of my major priorities.

The reforms mandated by the CFOs Act are intended to correct these long-standing problems. The Act focuses financial management authority and responsibility on the OFFM Controller and the agency CFOs, enabling the Congress and the President to hold specific people accountable for accomplishing the Act's objectives. Improving accounting and financial management systems will increase the availability of timely, useful information. Audited financial statements will confirm the reliability of financial information, as well as provide a vehicle for measuring one aspect of program performance.

Audited financial statements are one way to determine the financial health and condition of an agency. They represent a framework that demonstrates whether an agency has the capacity to (a) compile the data, (b) prepare the statements, (c) appropriately apply accounting standards, and (d) attest and audit the statements.

The CFOs Act will only work if OMB helps the agencies develop the capacity to generate financial information that is accurate and meaningful to policy officials. This cannot be simply a "bean-counting" exercise. Successful implementation of the Act requires senior level commitment, so that financial management becomes an integral part of the everyday management of an agency's activities.

Similarly, while the OFFM Controller will take the lead responsibility in day-to-day oversight of improving the Federal Government's financial management, I would—if confirmed—work closely with, and provide direction to, him or her. The CFOs Act's mandate gives the Deputy Director for Management the necessary portfolio to incorporate financial management as a dominant theme of OMB's management improvement mission.

*Question 2.* Please describe your views on the role of OMB's Office of Federal Financial Management (OFFM), and its relationship to the rest of OMB's management side, and to the budget aide.

*Answer.* OFFM develops policies and guidance for improving financial management, primarily as contemplated by the CFOs Act, but also in accordance with other statutes (e.g., the Federal Managers' Financial Integrity Act, the Inspector General Act, the Debt Collection Amendments, the Prompt Pay Act, and the Civil Monetary Penalties Inflation Adjustment Act).

OFFM's work is completed by

- The Federal Financial System Branch, which provides direction and leadership for the development of modern financial management systems,
- The Financial Standards and Reporting Branch, which develops policies and procedures, and provides technical assistance, relating to agencies' preparation and audit of financial statements, as well as being responsible for OMB staff work associated with the Federal Accounting Standards Advisory Board, and developing administrative requirements and cost principles for Federal grants,
- The Credit and Cash Management Branch, which develops government-wide policies and standards for credit management, the collection of tax and non-tax debt, and cash management, and
- The Management Integrity Branch, which works with the Inspectors General and leads government-wide audit follow-up, management initiatives, and high risk programs, as well as being responsible for strengthening financial management planning, organization, and personnel.

OFFM works closely with OMB's other Management offices and the Budget branches to achieve these goals. Budget examiners look to OFFM for insight and guidance concerning budget allocations for financial management activities. OFFM pays special attention to the funding requirements of agency CFOs and IGs. OFFM staff and budget examiners collaborate on financial management issues and work with the agencies to secure financial management improvements. Special attention would be devoted by me, if confirmed, to the integration of these financial management and budget roles and procedures.

*Question 3.* Agency CFOs are critical to achieving the objectives of the CFO Act. In the last administration, however, some agency CFO positions were never filled, some were filled with individuals with little or no financial management experience, and some were assigned as secondary responsibilities to officials with other duties, such as personnel, administration, or procurement.

a. What steps would you consider to ensure that all CFO positions are filled, and filled with professionally qualified individuals?

b. What are your views on whether agency CFO's should have multiple or singular responsibilities?

*Answer.* As Director Panetta has testified, this Administration and the Congress need to make it clear that an agency CFO's job, first and foremost, is to improve that agency's operations through better financial management. That means the Administration must recruit CFO candidates who understand how financial management fits into the "big management picture," have sufficient technical backgrounds to identify and meet financial management operational and reporting needs, and have the leadership and personal skills necessary to move financial management issues to the forefront of agency decision-making processes.

If confirmed, I would assist the Office of Presidential Personnel, the agencies, and OFFM's Controller in identifying, recruiting, and evaluating candidates for agency CFOs.

It would be preferable, of course, to have CFOs with single responsibilities. But when an individual possesses the aforementioned characteristics and has the demonstrated ability to balance financial management with other responsibilities, it may be appropriate, in certain agency environments, for the CFO to "wear other hats" simultaneously.

It is probably premature to revisit previously approved CFO organization plans, since many agency heads, and hopefully new CFOs, will themselves re-evaluate this issue. If confirmed, however, I would not hesitate to initiate consultations with agency heads, on a case-by-case basis, when OMB notes any "slippage" in financial management progress.

*Question 4.* The 1993 OMB 5-year plan for improving financial management raises many concerns. What will be your priorities?

*Answer.* The 1993 Financial Management Status Report and Five-Year Plan is consistent with the 1992 document in its basic structure and priorities. OMB continues to focus on improving seven essential aspects of financial management: accountability standards, financial management organization, financial management personnel, financial systems, management controls, asset management, and audited financial reporting. (Regarding the status of the report, OFFM circulated a draft document for comment and is currently reviewing responses by agency CFOs, IGs, and other interested parties.)

This second annual report provides OMB and the agencies with the opportunity to relate accomplishments of the past year, describe obstacles that may have delayed certain activities, and update plans for 1994-1997.

The 1993 Five-Year Plan outlines those critical activities that are necessary to improve government-wide financial management. My sense of priorities will undoubtedly evolve as I become more knowledgeable about the status of the Federal Govern-

ment's financial management. But it is already apparent to me that critical financial management improvements must be made concurrently rather than sequentially.

Ideally, we would first establish accounting standards and principles, then reengineer business operations, perform feasibility studies for financial systems, develop requirements, implement systems, and finally audit operations for performance evaluation. Yet OMB must lead these agency efforts concurrently.

If I am confirmed, my private sector financial management experience could help the able OFFM staff take a fresh look at these issues and determine which are the most critical functions that must be performed.

*Question 5.* What steps will you take to ensure that both OMB and other Federal agencies have sufficient funds to implement the CFO Act 5-Year Plan? Do you anticipate that it will be necessary to provide additional funding for this purpose (more than is needed to maintain current service levels)? If funding were reduced for agency administration, how would you ensure the continuation of the CFO Act reforms?

*Answer.* OMB has limited resources to address these initiatives. Thus, it is particularly important that the entire range of financial management needs be evaluated and, on a continuing basis, priorities be established.

In this regard, OMB can enlist help from the agencies themselves and other special initiatives, such as the National Performance Review. The NPR will serve as this Administration's first effort to identify and eliminate unnecessary and redundant policies and procedures. The NPR's "Financial Management System Reinvention Team" is exploring opportunities to reduce costs and improve services. OMB's own intra-agency team, "OMB 2000," will also consider opportunities to reengineer our work. And intra-agency redesign teams are taking a hard look at financial operations and services. This aggregate of resources will leverage OMB's work in financial management reform.

In OMB's Management and Budget Reviews in the coming months, agency heads, their key staff, OMB's Director, Deputy Director, and—if confirmed—I would address the status, costs, and plans for agency-specific financial management improvements. To fund them adequately, it may be necessary to set new priorities within the agencies. Before additional funding is sought, OMB will seek to have other functions consolidated or eliminated so the consequent savings can fund necessary financial management improvements.

*Question 6.* A frequently voiced concern over the CFO Act is whether OMB has the resources needed to carry out the Act's reforms.

a. What are your intentions regarding staff resources for the OFFM? Do you anticipate that inadequate resources will be a problem?

b. Do you know how many OFFM staff are anticipated for FY 1994 and how many will be newly hired as opposed to reassigned within OMB?

c. One of the biggest impediments to CFO Act implementation may be the lack of financial management training in the agencies. What is OMB doing to help agencies improve in this area?

*Answer.* Decisions on internal staff allocations and resources will be made by the Director, Deputy Director, and—if confirmed—me after we review the recommendations of our current internal study, "OMB 2000." As part of the NPR, this project is examining OMB's internal structure, staffing, and external relationships with the agencies and the Congress. Several OMB staff members are devoting their full-time efforts to this undertaking; senior OMB staff members serve as the Steering Group; and suggestions are being actively solicited from all staff.

OMB's FY 1994 and subsequent staffing levels will be determined on the basis of this project's findings. I expect, in any case, that, given the Director's, Deputy Director's, and my commitment to OMB's management role, adequate staffing will be available to comply with the CFOs Act's requirements.

If confirmed, I would ensure that OFFM's Controller continues to track closely the resource requirements of the CFOs and IGs and will work with OMB's Director to secure necessary funding to achieve the CFOs Act's objectives.

Also, I am aware that consideration has been given to several alternate methods of funding vital financial management initiatives. For example, the 1993 Appropriations Act allows the Justice Department to fund priority financial management initiatives from a small portion of the retained earnings of Justice's Working Capital Fund. Although strict Congressional reprogramming rules still apply to these funds, this can be a workable mechanism. If confirmed, I would explore the use of similar approaches with appropriate Congressional authority and controls.

Another approach stems from the Budget Enforcement Act's requirement that agencies score a cost for any actions that are likely to decrease direct loan collections or increase guaranteed loan defaults, but prohibits scoring the savings for actions likely to increase collections or decrease defaults (e.g., establishment of a liti-



gation information system). My preliminary reading of this arrangement suggests that the prohibition reduces incentives to seek management improvements, particularly those requiring start-up costs. If confirmed, I would review this question and perhaps recommend a change in the scoring for savings from explicitly defined management improvements.

Regarding financial management training in the agencies, the following initiatives should be brought to the Committee's attention:

- In conjunction with the Association for Government Accountants, OMB arranged for a series of two-day training sessions, attended by more than 400 persons, on the form and content of audited financial statements.
- OMB staff provides a two-day seminar on management controls and Federal Managers Financial Integrity Act implementation at the FBI Academy, Quantico, Virginia. The seminar is held two or three times a year and is available to all Federal agencies.
- OMB assisted in the establishment of the Inspector General Auditor Training Institute, located at Fort Belvoir, to provide basic audit training and specialized courses in financial statement auditing.
- The Human Resources Committee of the CFO Council Operations Group is undertaking various training and other projects to improve the quality of the financial management work force.

Agency CFOs are also taking advantage of training available from the Treasury Department, the Financial Management Service's Center for Applied Financial Analysis, the Office of Personnel Management's Washington Training and Development Services and the OPM nationwide network, and the Department of Agriculture's USDA Graduate School.

**Question 7.** The CFO Act provides for the development of agency financial statements. The common view is that the process of preparing reliable financial statements is as valuable as the end product.

a. What are your views about the importance of financial statements and how will you endeavor to fulfill the Act's mandates in this regard?

b. What can financial statements and other financial management information provide to the public to improve public understanding of government operations, as well as to improve government accountability to the public? What are your views on making such information more readily available to the public?

**Answer.** It is my understanding that, thus far, there has been little Federal Government experience with financial statements. For example, of the currently identified 107 reporting entities, OMB waived the 1991 financial statement preparation and audit requirements for 52. Generally, the waiver requests were based on the poor quality of their accounting data.

Of the 55 audited 1991 financial statements, 19 were found to conform with prescribed accounting standards, 13 did not so comply, and auditors were unable to render opinions on 12. (The remaining audits focused on specific accounts rather than the entire entities.) These results indicate that significant accounting and financial systems difficulties must be addressed.

I know, from my experience as a corporate director as well as manager, the value of audited financial statements. The preparation process establishes financial discipline and requires senior program and financial managers to understand the complexity and breadth of decisions affecting the agency's financial position and performance. Eventually, Federal entity financial statements must be used to confirm the reliability of information Congress uses to evaluate operations and make decisions.

Similarly, audited financial statements and other financial management information improve the public's understanding of Government's operations and fulfill Government's responsibility to be accountable to the citizens by providing information regarding

- Sources and uses of funds,
- Costs of providing specific programs and activities,
- Efforts and accomplishments associated with Federal programs and the changes over time in relation to costs
- The efficiency and effectiveness of the Government's management of its assets and liabilities,
- The Federal Government's true financial position, and
- The sufficiency of future budgetary resources to sustain public services and meet obligations when they become due.

Agency financial statements are available to the public upon request. For agencies which have been preparing statements for several years (*e.g.*, General Services Administration), the financial statement and auditor's report can actually be part of a widely distributed annual report.



**Question 8.** In what ways could the Federal budget process be improved by the financial information and management reforms of the CFO Act? For example, what steps should OMB take to ensure that agency financial information is used in agency budget formulation and OMB budget review, and by congressional appropriators?

**Answer.** The first and foremost improvement will be the availability of timely and accurate information on budget, program, and financial results. As Director Panetta has testified, budget formulation and execution must be supported by good information. Existing agency systems for collecting this information, and making it available for decision-making and for budget control, need dramatic improvement.

Other financial reporting reforms fostered by the CFOs Act will also benefit the Federal budget process. Audited financial statements can play a significant role in budget execution, and changes in their form and content have been designed to improve the quality of information. Also, program performance information included in the statements will be used to evaluate the agency's activities. Further improvements in the financial statement disclosures are necessary, and it is my understanding that they are under consideration.

Finally, OMB has been working with the Treasury to improve the budget execution reporting process. A project is underway to define both OMB's and Treasury's information needs and to ensure that they will be satisfied through integrated government-wide financial information that is accurate, timely, internally consistent, and readily accessible. To this end, OMB and Treasury are considering the establishment of a single data administration function to manage central financial management information.

**Question 9.** For some time, this Committee has been requesting the Federal government streamline its hundreds of financial management systems. The committee has been told repeatedly that this was being done. In 1987, the Committee was informed that by 1992 the Federal government would have only 26 such systems, yet hundreds remain. Please describe your understanding of the status of financial systems reform, and any ideas you have for improving those systems.

**Answer.** Federal Government policy, established in 1984 in OMB Circular A-127, concerning "Financial Management Systems," is that each agency establish a single, integrated financial management system. This Circular has been recently updated, and the proposed Circular, published in the *Federal Register* for comment in January, 1993, reinforces the objective of consolidating agency systems where appropriate and provides improved guidance for establishing integrated financial management systems. Also, consistent with the CFOs Act, OMB, taking a broad approach to oversight of financial management, has increased the number of systems it tracks.

Though I would devote more extensive study to this matter if I am confirmed, I understand that three approaches can best reduce the number of financial management systems:

- (1) Cross-servicing: The revised OMB Circular A-127 requires that agencies use cross-servicing, whenever feasible and cost-effective, as a quicker, generally less costly, and less risky solution to supplying financial system services than using multiple and/or old systems. This concept is not new, and there are many successful models, such as the Agriculture Department's National Finance Center, HHS' grant payment services, GSA's accounting, payroll, and other financial services, Treasury's administrative accounting services, and the Interior Department's payroll/personnel and accounting/payments services. This approach is particularly effective for smaller agencies which can have their accounting or other administrative needs provided by larger agencies with more modern, efficient systems.
- (2) Standardized departmental systems: Recently, there has been a trend toward this approach in large departments, such as Defense, Interior, Justice, Transportation, Veterans Affairs, Health and Human Services, and Treasury. This should be encouraged and appropriately funded.
- (3) Shared applications: Examples of the use of one agency system by multiple agencies include HUD's CAIVRS System, used by other agencies to support credit assessment of potential borrowers, and the Justice Department's Central Intake Facility, which (on a pilot basis) is processing litigation claims for other Federal agencies.

One major deterrent to the adoption of more cross-servicing is the absence of agencies that have both the desire and capacity to provide this service. For example, the USDA National Finance Center (NFC) eagerly sought cross-servicing business from non-USDA agencies over the last ten years; but NFC resources are currently being redirected toward improving its systems infrastructure and not toward seeking additional cross-servicing business. If confirmed, I intend to work with the OFFM Controller to expand opportunities for cross-servicing between departments,

where appropriate, identify new providers, and/or expand the services offered by current providers.

In my opinion, streamlining financial management systems and utilizing new technology are essential to this Administration's objective to "reinvent government." Many opportunities exist to improve service delivery and financial management through the use of modern technology, such as Electronic Benefit Transfer pilots taking place in Maryland and Texas. If confirmed, I would pursue these and other initiatives necessary to improve the quality of the Federal Government's financial management systems, provided they are cost-effective.

*Question 10.* Excluding the Treasury Department, the total delinquent debt to the Federal Government, as of June 30, 1991, was about \$42.5 billion. This includes \$18.9 billion of defaulted guaranteed Federal loans. OMB has created a "SWAT" team to attempt to collect the \$6.5 billion which the agencies have referred to the Justice Department for collection. Will you keep the SWAT team set up in the previous Administration? What other proposals do you have to better collect the money legitimately owed the government?

*Answer.* It is my understanding that the Litigation Information Action Team was established not to collect the debt, but to recommend steps to ensure that data on the amounts and status of debts at Justice would be complete and reliable. The Team's key recommendation, contained in its June, 1992, final report, was that the Department of Justice begin development of a centralized Departmental financial litigation tracking system.

The Federal Credit Policy Working Group's Litigation Subgroup is monitoring implementation of the recommendations; proposals in response to an RFP for the tracking system are being reviewed at this time; and August, 1993, is the target date for beginning the systems development. The plan is to track not only debts referred to Justice by other agencies, but also debts arising from cases initiated by Justice. The total debt tracked is estimated to be \$13.0 billion annually. Also, it is my understanding that the financial litigation system will provide accounting and financial reporting services.

SWAT teams will be a principal mechanism for addressing delinquent debt collection. But they do not themselves ensure good management. If confirmed, I intend to utilize SWAT teams, whatever they may be called; but OMB's overarching goal in this regard should be to have agencies establish better management procedures which result in problems being identified earlier. For example, OMB's Credit Management Program seeks to improve credit extension procedures to prevent delinquencies in the first place.

*Question 11.* What are your views on the effectiveness of the CFO Council? Describe any plans you have to improve OMB's ability to work with agency CFO's and agency heads to improve financial management.

*Answer.* I have been advised that the CFO Council and the Council Operations Group have been essential in the progress OMB has made in implementing the CFOs Act. Their continuing advice and active participation in these matters should be very helpful. Since Council members are at the "front lines," OMB cannot succeed in carrying out its responsibilities without close communication with, and help from, them.

If confirmed, I would have regular contact with agency heads and the CFOs. From these relationships, I hope to monitor the agencies' progress in financial management and champion the need for continued improvement.

*Question 12.* What do you see to be the roles of GAO, Treasury, the Federal Accounting Standards Advisory Board, the CFO Council and others in ensuring effective implementation of the CFO Act, and what would be your plans for working with these groups?

*Answer.* Each of these organizations plays an important role in the implementation of the CFOs Act. It designated OMB's Deputy Director for Management to be the chief official responsible for financial management in the United States Government. It further vested in OFFM's Controller authority to act on behalf of OMB's Deputy Director for Management to "provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements and by monitoring the establishment and operation of Federal Government financial management systems." If confirmed, therefore, I would work closely with OFFM's Controller to enhance OMB's relationship with the aforementioned organizations in the implementation of the CFOs Act.

The Treasury Department's Financial Management Service (FMS) is responsible for many of the Government's financial management operational matters, including issuing payments for all Executive agencies other than DOD, the Marshals Service, and the Postal Service; supervising the banking mechanism that processes collections into commercial banks and the Federal Reserve Systems; providing cash-based

central accounting and preparing consolidated daily, monthly, and annual cash flow and cash transaction reports; and providing policy guidance and oversight, at OMB's direction, in cash management, credit management, and debt collection. Thus, FMS performs many financial management activities which affect the financial management of the Federal Government and its agencies.

The CFOs Act indicated that it should not be construed to interfere with the functions, duties and responsibilities of the Treasury Department which were in effect before the Act's enactment. But as the recitation of FMS' duties suggests, a close working relationship between FMS and OMB is essential. If confirmed, I intend to monitor the coordination of OFFM and FMS activities and would strive for continued improvement in that regard.

Since the GAO is the Federal Government's primary auditor, one of my first meetings after the President nominated me for this OMB post was with GAO's Comptroller General and his senior management. Although auditors do not run organizations, they can, I have found in the private and nonprofit sectors, foster significant management improvements by identifying problems and providing counsel. GAO's long interest in the improvement of the Federal Government's financial management, its broadly experienced personnel, and the commitment the Comptroller General communicated to me suggest that OMB will benefit greatly from GAO's input and assistance.

The Federal Accounting Standards Advisory Board (FASAB) was established by three of the Joint Financial Management Improvement Program principals—OMB, Treasury, and GAO—to recommend accounting standards for the Federal Government. Knowing that it can take considerable time to develop acceptable accounting standards, OMB has defined form and content to guide the preparation of agencies' financial statements. It is OMB's intent to use the standards recommended by FASAB as the basis for the form and content guidance as standards are developed. OMB is represented on FASAB's Board, has been an active participant in all FASAB deliberations, and will continue to provide leadership and assistance with FASAB projects.

My plans for working with the CFO Council are outlined in my answer to the previous question.

**Question 13.** Under OMB's 5-year financial management plan, Treasury and OMB's financial data bases are to be integrated. As a result of the first step of this effort, the government now knows for the first time what its current unobligated balances are. How do you believe that this information will affect operational decision-making? What will be the effects on decision-making when this project is completed in 1994?

**Answer.** OMB and Treasury are now collaborating in the use of the Automated Database of the Evaluation of Performance Trends (ADEPT) System. This system contains (a) asset and liability information reported to Treasury and (b) some budget execution information required by OMB, the latter having been in the system since 1991. Currently, this data is available for analysis by OMB and Treasury personnel.

Quality financial information is essential to proper monitoring of the use of government resources. Budget planners, program managers, and senior administrative personnel critically need timely, consistent, and accurate information. Decisions concerning management of financial resources, changes in government policies, establishment of budget priorities, as well as greater accountability and better forecasting, require such financial data.

Even after implementation of the five-year financial management plan and integration of Treasury's and OMB's financial data bases, capabilities for collecting, processing and reporting government-wide data will still need continual revision as the policy-makers' information needs change. Improvements are currently underway, I have been informed, to (a) increase the quality and integrity of government-wide data; (b) provide more effective and efficient systems to collect and manage government-wide data; (c) include information on Federal loans and loan guarantees; and (d) increase use of budget execution data and other related information.

**Question 14.** OMB's 5-year plan seems most applicable to direct federal operations. How do you intend to apply these financial management concepts to the hundreds of billions of dollars of federal money administered by States, localities, and third parties?

**Answer.** OMB's five-year plan for improving the Federal Government's financial management, prepared in accordance with the CFOs Act, addresses the Federal Government's communications with grantees, which include State and local governments, colleges and universities, and nonprofit organizations. OMB, through its circulars, provides Federal agencies with guidance for grantees that will ensure the proper administration of Federal assistance programs.



Five of these Circulars affecting grantees address two objectives of the CFOs Act:

- (1) Improvement, "in each agency . . . , of systems of accounting . . . , financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources."
- (2) "Production of complete, reliable, timely, and consistent financial information for use by the Executive Branch of the Government and the Congress in the financing, management, and evaluation of Federal programs."

Circulars A-102 (grants to State and local governments) and A-110 (grants to colleges and universities and other nonprofit organizations) address administrative requirements to be followed by grantees in administering Federal assistance programs. These Circulars provide guidance concerning standards for financial management systems, procurement, property management, sub-awards to entities debarred from doing business with the Federal Government, sub-recipient monitoring, cash management, and financial reporting.

Circulars A-21 (colleges and universities), A-87 (State and local governments), and A-122 (nonprofit organizations) contain cost accounting principles, specify what costs are allowable in administering Federal assistance programs, and explain the principles associated with allocating indirect costs to Federal programs.

If confirmed, I would ensure that these Circulars are continually updated to reflect Administration policy and to achieve the CFOs Act's objectives.

*Question 15.* What are your views on the relationship between agency CFO's and IG's? What kind of working relationship do you envision as being necessary to ensure the full implementation of the CFO Act?

*Answer.* The CFO and the IG comprise an essential partnership in every agency's top policy and management team. They must be able to work together well since they share many of the same objectives and requirements under the CFOs Act.

Full implementation of the CFOs Act will depend on strong, ongoing communications and a spirit of cooperation between CFOs and IGs and their staffs. Only in this way can financial statements be audited in an effective manner.

Additionally, the CFO must be an advocate for timely corrective action and follow-up of audit recommendations made by the IG. The IG, in turn, should be willing to assist the CFO in solving organizational implementation problems and in supporting the CFO's efforts to strengthen management controls by agency program managers.

*Question 16.* What do you consider to be OMB's responsibilities with respect to financial audits of Federal agencies? What steps should OMB take with respect to adverse financial audit findings?

*Answer.* OMB, put very simply, must ensure that those audits occur and meet professional standards. I understand that, to this end, OMB staff have (a) requested annual audit plans for Inspectors General, (b) consulted with IGs and their staffs on particular audit questions and problems, (c) recommended intermediate audit steps appropriate to the conditions of agency records that would promote progress towards full compliance with the CFOs Act, (d) fully participated in all PCIE activities promoting compliance with the Act's audit requirements, and (e) conducted training for IGs on audit standards and techniques. If confirmed, I would seek to have OMB continue these measures.

When IGs have issued adverse audit reports, OMB has carefully studied the bases for such findings, communicated these to Congress, and, where possible, consulted with CFOs and IGs on addressing the root causes of the problem and appropriate solutions. I believe OMB must both (a) take a more aggressive position in response to adverse financial audit findings, and (b) continue to be proactive in working with agencies in addressing serious financial management problems.

*Question 17.* Financial statements are to be audited by agency Inspectors General or by an independent external auditor, as determined by the Inspector General. The Committee on Governmental Affairs, as the authorizing committee for the Inspectors General, is committed to expanding the capabilities and effectiveness of the IG community.

a. Since the audits are not a one-time occurrence, but will be performed on an annual basis, should not agencies have a goal of increasing in-house audit capabilities?

b. What do you believe are the circumstances under which an IG should have audits performed by an external auditor rather than developing that capability within the agency's Office of the Inspector General?

*Answer.* IGs will need time to build, within their organizations, the financial auditing skills needed to complete financial statement audits. During this period, the use of independent public accountants (IPAs) may be not only a practical and economic extension of limited IG resources, but also a means by which skills of IG staff are developed by their interaction with and oversight of the IPAs.



As IG staffs gain the necessary expertise in conducting financial audits, IGs might continue to use IPAs to perform certain financial work. This would allow IG resources to address areas requiring program knowledge and judgment while IPAs perform actuarial analysis, electronic data processing, and other technical tasks for which it may not be economical to hire full-time staff. It is also possible that financial or compliance audits of regional or local operations might be better accomplished by local IPAs than by centrally located IG staff.

But even when IGs choose to use IPAs, the IG should maintain a high degree of familiarity with the financial statement audit. Only in this way can the IG gain knowledge necessary to planning an effective audit program.

In response to both parts, I must note that OMB's policy has been to leave these questions to the judgment of individual IGs.

*Question 18.* What steps will you take to ensure that the IGs have sufficient resources to carry out their CFO Act responsibilities?

*Answer.* I am told that OMB management staff has paid considerable attention to IG resource requirements and has actively tracked these resource needs so the Deputy Director for Management can intervene to ensure appropriate funding. If confirmed, I would continue to watch IG, and for that matter CFO, budgets closely and provide advice on resource levels where necessary.

*Question 19.* To what extent can traditional IG functions be used to facilitate financial management improvements, e.g., using IG performance audits to produce required financial data?

*Answer.* IGs can facilitate financial management improvements not only by their annual audits of financial statements, but also by being mindful of the CFOs Act's objectives as customary IG investigative and inspection functions and performance audits are performed. Within the framework of performance audits, for example, the IGs can focus on financial management issues.

*Question 20.* What are your views on entity-wide single audits and how might the audits conducted under the Single Audit Act and OMB Circular A-133 be used to support the objectives of the CFO Act?

*Answer.* One of the principal objectives of the Single Audit Act, and its implementing Circular A-128 (State and Local Governments), is to improve financial management of Federal assistance programs administered by State and local governments. OMB Circular A-133 has a similar objective pertaining to higher education institutions and nonprofit organizations. These programs collectively amount to more than \$200 billion in Federal assistance.

Two key provisions of the Single Audit Act and these Circulars are requirements for auditors to (a) assess the adequacy of internal controls to ensure Federal programs are properly managed, and (b) perform tests to determine whether grantees administer Federal programs in accordance with controlling laws and regulations. These reports provide a timely (annual) assessment of how well grantees are administering Federal programs and alert Federal agencies to grantees with weak internal controls and compliance problems. By allowing agencies to focus on risky grantees, this "alert" system is an effective mechanism for ensuring proper management of Federal assistance programs.

OMB recently prepared its annual report on organizations' compliance with the Single Audit Act. Based on information received from Federal agencies, the report indicated that they were experiencing numerous problems, some of which require changes to the Act. For example, the Act requires audits of entities that receive relatively nominal amounts (between \$25,000 and \$100,000) of Federal assistance. This may not be cost-effective, and Congress might consider raising the threshold.

Other problems include untimely audit reports and findings that are not sufficiently descriptive to enable program personnel to take effective action. The single audit process seems, nonetheless, to be meeting the Act's objectives and, thereby, some objectives of the CFOs Act.

## V. INSPECTORS GENERAL

*Question 1.* The Deputy Director for Management has been appointed by Executive Order to be the Chairperson of both the Executive Council on Integrity and Efficiency (ECIE) and the President's Council on Integrity and Efficiency (PCIE). Together these Councils comprise the whole of the Inspector General community, and also include other members, such as the Office of Government Ethics and the Office of special Counsel.

a. What do you view your role and responsibility to be with regard to the Inspectors General?

b. What are your views on the role and value of the PCIE and ECIE? Should they be continued? If so, what areas would you like them to emphasize in the next four years?

c. What support can OMB give the IG's? Among other things, with regard to OMB organization and staffing, what steps will you take to ensure good communication and working relationships with the IG community?

*Answer.* OMB's Deputy Director for Management is the Administration official who works most closely with the IG community. Through chairing the PCIE and ECIE, if confirmed, I would seek to assist the IGs in maintaining their high standards and in examining ways their work can be made even more useful to the Administration and agency management. I would also encourage agency officials to build productive relationships with their IGs and respond appropriately to IG findings.

The PCIE and ECIE were intended to coordinate IG action concerning fraud, waste, and abuse as well as efforts to identify program inefficiencies and ineffectiveness. Systemic problems, such as computer security and inappropriate use of contracted advisory and assistance services, may best be identified and addressed through inter-agency audits and reviews by PCIE and/or ECIE task forces.

The PCIE's April 28, 1993, "Survey of the Implementation of the FAR Provisions Pertaining to Conflicts of Interest" is another good example of inter-agency coordination. After IGs conducted limited reviews in 19 agencies, the PCIE compiled the results and presented a report to OMB, other PCIE members, and the Congress that will be used to improve agency contracting practices.

I have met with Professor Paul Light and am familiar with his book's suggestions for a broader role for IGs. Concise, timely, independent program-oriented evaluations could greatly help senior decision-makers, and the PCIE and ECIE will be the forums in which I, if confirmed, would seek counsel and address potential adaptations of the customary IG role.

OMB should support the IGs by, for example, ensuring that agency management appropriately responds to IG findings. If confirmed, I would advise OMB's Director to use the resources and authority of OMB to support further the work and effectiveness of the IGs.

*Question 2.* Inspectors General, according to the 1978 Inspector General Act, are to be selected without regard to political affiliation and solely on the basis of integrity and demonstrated ability. In the past an ad hoc committee of the PCIE reviewed each Inspector General candidates' qualifications. Would you reestablish this practice for Presidential candidates and extend it to the IGs for the designated Federal entities?

*Answer.* I have been informed that the PCIE Qualifications Review Subcommittee has not met in two years and that consultation with the PCIE and ECIE regarding selection of new IGs has been more informal.

The President and his agency heads are committed to recruiting the best qualified candidates for appointment to Presidential positions. The recruitment process is rigorous and requires extensive consultation before final selections are made. If confirmed, I would continue the practice of asking individual IGs for their opinions of candidates.

Regarding the designated Federal entities, I am aware that selection of the IG for the National Archives and Records Administration has provided an opportunity for the IG community to review applicants' qualifications through two panels. I understand that the Acting Archivist, who has been interviewing candidates, is pleased with the panels' work. Successful models like this will do much to encourage other designated agency heads to solicit the IG community's involvement in the selection process.

*Question 3.* A strong, effective Inspector General office is one of the best tools available to ferret out fraud, waste and abuse. Often, however, IGs find themselves in disputes with agency management about their findings and recommendations. On occasion the IG and management turn to OMB for mediation. What would you see your role to be in these situations?

*Answer.* In these instances, OMB, through the Management Integrity Branch, or—if the situation warrants—the OFFM Controller or the Deputy Director for Management, works with both parties to resolve the dispute. OMB's role in these cases is that of an "honest brokers" or mediator.

In resolving any such disputes, I would try to help both parties understand the importance of a strong, independent IG, the professional standards that support IG work, management's responsibility to respond to IG recommendations, the phenomenon that facts may lead to different conclusions when addressed from different perspectives, and management's discretion in addressing problems the IG brings to the agency's attention.

*Question 4.* The Allegation Review Subcommittee of the PCIE is currently responsible for reviewing all allegations of misconduct by Inspectors General. Yet this subcommittee has no investigative resources, and virtually no authority or staff. The previous DDM was actively involved in trying to resolve these problems, working closely with Committee staff, the FBI and the IG's. Do you have any proposals for addressing this problem?

*Answer.* From conversations with OMB's previous Deputy Director for Management and OMB staff, I understand the importance of this issue and will work with the Attorney General, the PCIE, and this Committee to ensure that an effective system for handling all allegations against IGs is established.

I have been informed that the sole remaining issue is how to handle administrative allegations against IGs which do not fall into the jurisdiction of a specific Federal agency. There is consensus that criminal investigations fall under the FBI's province and that certain administrative issues are more appropriately left to other offices. For example, allegations of mismanagement should be referred to OMB, and those relating to personnel practices should be referred to the Special Counsel.

Regarding the status of OMB's work on this issue, I have been informed that, after much discussion, the FBI offered that, at the explicit direction of the Attorney General, it would undertake these administrative investigations. The proposal received verbal support from the FBI and the previous Deputy Attorney General. But the Attorney General declined to sign the implementing directive pending further legal review of 28 U.S.C. § 533 to determine whether it provides the Attorney General with sufficient statutory authority to instruct the FBI to conduct administrative investigations of IGs throughout the Federal Government.

OMB has asked the new Attorney General for help in bringing this issue to swift resolution. Director Panetta's April 15, 1993, letter to Attorney General Reno asked that she direct the Office of Legal Counsel (OLC) to provide a timely opinion on this question. If sufficient legal authority exists, OMB will work with the Justice Department to implement this practice. If the Attorney General concludes otherwise, OMB would consider, with the Justice Department, the PCIE, and the ECIE, whether a statutory remedy should be proposed.

*Question 5.* You are probably aware of an Attorney General Order, signed on December 11, 1992, by then-Deputy Attorney General George Terwilliger as Acting Attorney General, which severely cut back the authority of the Office of the Inspector General at the Department of Justice to conduct investigations. Senator Glenn wrote then-Attorney General Barr to protest this order which he felt unlawfully and very significantly harmed the effectiveness and authority of the IG office. Will you recommend to the new Attorney General that this order be rescinded?

*Answer.* Senator Glenn raised this issue at Director Panetta's confirmation hearing, and the Director assured the Senator that he would follow up with the Attorney General. OMB staff are preparing a letter requesting that the new Attorney General review the previous Administration's orders and OMB will work with the Justice Department to ensure compliance with the IG Act and seek to ensure implementation of an effective internal investigative program within the Department of Justice.

OMB's reading of the matter is that the 1992 orders indeed appear to extend responsibilities of the Department's Office of Professional Responsibility (OPR) beyond the boundaries envisioned in the Inspector General Act of 1978, as subsequently amended. The Inspector General Act Amendments of 1988, which created the Justice Department's OIG, were ambiguous in describing the relationship between OIG and OPR. This ambiguity resulted in the OIG's and OPR's strained relationship.

Should the Attorney General rescind the previous Administration's order, this underlying situation will still need to be addressed. If the order is rescinded, OMB would be pleased to work with the Justice Department to develop a directive consistent with the IG Act.

*Question 6.* In 1988, when the IG office was created at Justice, there were already in place certain offices within main Justice and FBI, INS, and others which conducted internal reviews. Those offices were left intact and not consolidated with the new IG office, at the request of the Attorney General. The Conference Committee report suggests that the Attorney General should review the issue of merging those offices in the Office of Inspector General:

In deference to the request of the Attorney General, the Senate recedes to the House with respect to not transferring the Department's Office of Professional Responsibility (OPR) into the OIG. In the future the Attorney General may determine that OPR and the other audit, internal investigation and inspection units remaining outside the OIG should be consolidated in the OIG . . . Such a transfer would be consistent with the inspector general concept.



It now appears, four years later, that this issue has not been resolved, and has hampered the ability of the Department of Justice to investigate internal allegations of wrongdoing. Will you review this issue and discuss it with the Attorney General?

*Answer.* Again, the underlying problem is how to promote the most effective internal investigation, audit, and inspection programs within the Justice Department. I agree with the Committee that this is an important issue: the Government's principal law enforcement agency must have an effective internal review program.

I pledge that, if confirmed, I would promptly bring this issue to the Attorney General's attention and request that she review that Department's internal investigation, audit, and inspection units. The objective of her study, I would contend, should be appropriate consolidation and assurance that internal reviews will be conducted in a timely and impartial manner. I would specifically suggest that she consider moving some of these units to the OIG.

*Question 7.* What are your views on the level of attention that IGs should give to issues of program effectiveness and to making recommendations for achieving improvements in that area? Please include in your answer a discussion of the role IGs would play in the implementation of S. 20, should it be enacted into law; for example, auditing and verifying the results reported by programs and in evaluating program performance.

*Answer.* I am in favor of IGs devoting more of their resources to program effectiveness reviews. Concise, timely, independent program-oriented evaluations can be of enormous value to senior policy-makers.

S. 20 requires identification of a process to verify and validate performance data. Under S. 20, agencies may use an audit or any other procedure that would support general accuracy and reliability of information contained in the annual performance report. S. 20 further states that agencies, at their discretion, may request that the IG perform this task.

## VI. PERFORMANCE MEASUREMENT

*Question 1.* The CFO Act gives OMB the responsibility for overseeing the "systematic measurement of performance." As you know, the Committee has favorably reported to the Senate S. 20, the "Government Performance and Results Act," which would spell out in detail OMB's performance measurement mission.

a. What are your views on performance measurement, including its benefits, any potential barriers to successful implementation, and the specific requirements of S. 20?

b. What are your views on the relation between OMB's CFO Act performance measurement responsibility and any responsibility that would be created by the enactment of S. 20? Please include in your answer a discussion of the relation between performance measurement as a financial measurement tool and as a broader program management tool.

*Answer.* Among the main benefits of performance measurement will be

- Greater focus by Government officials on program execution, on results, and on the improvement of the delivery of services to the public; and
- The availability of useful and timely information on the effectiveness and efficiency of programs for agency officials, the Congress, and the public to make policy and resource allocation decisions.

This emphasis on measuring performance and the ultimate results of Federal spending can transform the way the Government and the public look at Federal programs. No longer will attention be almost exclusively on "How much will be spent?" The focus can shift to results: "What are taxpayers buying, and are the results worth the expenditure?" Consistent with its "reinventing" theme to achieve an entrepreneurial spirit in governance, the Administration is strongly supporting this bill.

OMB's principal concern at this point is that agencies not try to do too much measurement. Notwithstanding the benefits of performance measurement, care must be taken to assess the relative costs of some types of measurement compared to the benefits that might be derived from the data. Too much measurement will overwhelm and overburden agencies. The amount and types of data being collected must match the user's needs. It is inevitable that, over the next few years, there will be considerable unevenness in the agencies' performance measurement records. Also, performance measurement is not likely to be applicable to all Federal Government activities.

Performance measurement under the CFOs Act is primarily a retrospective presentation, oriented toward recording and reporting actual performance. S. 20 substantially advances measurement begun under the CFOs Act by requiring the setting of performance goals and targets, and the comparing of actual performance

with these goals. These performance goals correspond to annual budget requests, and thus provide a preview of the performance that should be expected from a program or activity during a fiscal year.

Measuring financial performance is a key tool for any manager. Unlike the private sector's focus on "bottom line" profitability, however, many Government programs have fundamentally different purposes. Thus, Federal measurement systems must evaluate, in addition to financial information, the effectiveness, impact, and results of expenditures.

*Question 2.* Given that S. 20 calls for agencies to be more responsible for producing results, and provides for greater managerial flexibility, what implications would the legislation have for OMB's general management oversight role?

*Answer.* The legislation both expands and changes the scope and nature of OMB oversight. S. 20 specifically requires that OMB prepare an annual government-wide performance plan, including proposed waivers that can provide greater managerial flexibility and autonomy. This will necessitate continuing coordination and consultation with the agencies.

S. 20 also places a much greater emphasis on program execution. Because of this, a significant shift is likely to occur in the amount of attention OMB currently gives to program inputs (*i.e.*, resources) compared to that placed on program outputs and outcomes.

S. 20 essentially underscores OMB's management role in the Executive Branch.

*Question 3.* The Nixon, Reagan and Bush Administrations made various attempts to establish a Management by Objectives (MBO) process, all of which fell short. What are your views on the MBO process as a means of improving Federal management? What lessons does MBO hold for initiatives such as performance measurement?

*Answer.* I agree that the experience with Management By Objectives (MBO) as a government-wide management system has not been impressive. Why did it fall short?

- (1) Objectives were often not measurable;
- (2) The MBO process, even for those objectives that were measurable, was often not used in either the agency or White House management system, likely because what was being measured was not deemed to be meaningful or important; and
- (3) Budget, policy, evaluation and personnel decisions (*e.g.*, promotions, transfers, etc.) were made without reference to MBO performance.

Ultimately, I am told by officials who were instrumental in the process, the MBO system became bound up in meaningless paper and became disconnected from the system by which managers ran their programs. Although some agencies may have used the MBO methodology for useful purposes, it was commonly treated as a set of "buzzwords" with little practical impact.

The failure of MBOs is not one of concept, but of follow-through. If top officials establish a system, whether PPBS, MBO, ZBB, performance measurement, or BEA caps, and then pay little regard to it, that signal is quickly perceived by line managers and staff. A system that can be ignored without consequence will be ignored.

OMB will be applying the "lessons learned" from the MBO initiative to implementation of S. 20, should it be enacted. Its approach differs in some fundamental ways from the MBO process, and the legislation anticipates and addresses many of the MBO shortcomings.

## VII. PROGRAM EVALUATION

*Question 1.* In a December 1992 GAO Transition series report, "Program Evaluation Issues," the Comptroller General said that "the attention being paid to evaluation issues is inadequate either for managing programs efficiently or for providing Congress with the data necessary for informed program oversight."

- a. What are your views on the role played by program evaluation in the operation of Federal activities?
- b. What are your views on the Comptroller General's remarks, quoted above?
- c. What can be done to improve Federal program evaluation efforts?

*Answer.* Program managers, OMB, Congress, and the public need to know whether government programs are or are not working and why. Program evaluation can provide information valuable for improving program design and management. Scarce resources can also be targeted, as a result, to those areas that are demonstrating the greatest successes.

Not only was the Comptroller General's statement correct, in my view, but it is commonly observed that the Government's capacity to evaluate the effectiveness of programs has eroded substantially over the past two decades. While process evalua-

tions and related management analyses, such as compliance audits, have proliferated, evaluations addressing the more fundamental questions are relatively scarce: i.e., whether or not a program achieves its objectives, whether its objectives remain relevant, why it has succeeded or failed.

I am committed, if confirmed, to using objective evaluation data—about *both* program operations and results—as an important part of OMB's work and shall urge all agencies to do the same.

*Question 2.* Program evaluation is generally conducted on an ad hoc basis, with no pre-established benchmarks for measuring program efficiency and effectiveness. What is the relation between reforms contained in S. 20 and program evaluation efforts?

*Answer.* S. 20 explicitly recognizes the role of program evaluation in assessing program performance. Certainly, the capability to measure performance is fundamental to program evaluation. But performance measurement and reporting can reinforce program evaluation. S. 20 would require agencies to set measurable performance standards, which could help focus program evaluation questions. Agencies' development of performance measurement systems in many cases would require improvements in their information databases, from which program evaluations could draw.

Program evaluation, in turn, can increase the impact of performance measurement and reporting. While performance data can show in raw numbers how well a program is working, they do not necessarily explain why. Developed in conjunction with a performance measurement and reporting system, a program evaluation agenda should address questions such as "Why (and how) is this program achieving such success?" or "Why (and how) is this program falling short?" The combined methodology could be enormously important to future policy making and to reducing the costs of government.

#### VIII. FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT

*Question 1.* What is your impression of the condition of internal controls across government today?

*Answer.* Reports about fraud, waste and abuse in the Federal Government continue. There is, nonetheless, a general sense that management controls are stronger today than they were several years ago, in part because of the increased attention paid to the identification and correction of high risk areas.

Yet much more needs to be done, both on a government-wide level and through day-to-day operations of agency managers and staff. The National Performance Review should be a major impetus for addressing the efficiency and effectiveness of Federal programs and operations.

The NPR's objectives in this regard parallel those of the FMFIA program, which is part of the Government's ongoing operations. The Federal Managers' Financial Integrity Act sets the framework for management to identify, disclose and correct weaknesses in management controls that would ultimately lead to breakdowns in government programs.

To strengthen the Federal Government's implementation of FMFIA, OFFM staff are currently revising OMB Circular A-123, which implements the Act. The revision's goals are to (a) provide agencies with latitude in the way they implement their management control programs; (b) make the concept of management controls understandable and meaningful to agency managers; (c) make agency managers more accountable for the integrity of their programs; and (d) eliminate areas of ambiguity found in the current policy.

The NPR System Reinvention Teams are examining the FMFIA process as one of the many management requirements placed on Federal managers. Many Federal managers seem to have strongly-held convictions regarding agency FMFIA programs. In the coming months, if confirmed, I intend to review the NPR recommendations and discuss them with OMB staff to determine what changes are necessary in the management control program.

*Question 2.* Since the Act was passed, Federal agencies have identified several thousand material internal control systems weaknesses, but most have been reported by IG's and GAO, instead of by agency managers, as the law requires. What do you think you can do to hold managers more accountable?

*Answer.* OMB is also concerned about the fact that many of the thousands of internal control weaknesses identified in FMFIA reports have been identified initially by IG's or GAO. FMFIA's underlying premise is that managers are responsible for assessing their own internal controls and reporting material weaknesses. In meetings held with 22 of the largest Federal agencies last summer, I am told, it was apparent that even now, ten years after the Act's passage, there were few incentives



to encourage agency managers to report deficiencies or weaknesses in their programs and operations.

OMB is exploring options to improve the FMFIA process as part of its current efforts to revise Circular A-123. Believing that management controls are an integral part of a manager's responsibilities, OMB is committed to the premise of self-assessment. Management's accountability for the identification, reporting, and correction of weaknesses needs to be strengthened. If confirmed, I would work closely with the OFFM Controller, the PCMI, and the agency deputies to address this subject.

**Question 3.** In spite of the FMFIA it seems that instances of fraud, waste, abuse, and mismanagement continue to grow in terms of numbers and dollar impact.

a. That more can be done to reduce both the individual incidents of fraud, waste, abuse, and mismanagement and the related costs to the taxpayer?

b. What action should OMB take when agencies that have a variety of well-documented internal control weaknesses report in their annual statement that they are not in violation of the Act? Has OMB ever rejected a FMFIA report?

**Answer.** OMB has made progress over the past several years in strengthening the FMFIA program, but more needs to be done to reduce fraud, waste and abuse. As noted in my response to the previous question, the NPR is one such opportunity. Other initiatives should result from the President's and his Cabinet's commitment to improving management of the Executive Branch and reducing the costs of government. Also, OMB will conduct Management and Budget Reviews of agencies over the next few months with a focus on management improvement efforts.

OMB has taken several specific steps to strengthen FMFIA:

- OMB staff have initiated proposed revisions to Circular A-123 (Management Controls) and A-50 (Audit Follow-up); and
- OMB's policies for the preparation and audit of agency financial statements gradually expand the auditor's responsibility to review, test, and report on program internal controls as well as financial internal controls. These policies will provide more definitive information on the state of agency management controls.

OMB staff, I have been advised, have taken a hard look at FMFIA reports over the past year and found that the quality of agency FMFIA reports varies widely. Some agencies prepare concise, meaningful reports that indeed identify and disclose weaknesses. Other produce lengthy reports that present an incomplete or inaccurate picture of management controls.

OMB is encouraging agencies to design FMFIA reports that are more "executive" in style so that they will be widely read on the Hill and throughout the agency. OMB has recommended that agencies eliminate process and background information, focus on reporting results, and limit corrective action plans to two pages.

Engaging agency heads and their senior staff in recognizing the importance of management is a critical first step. Often, program issues gain the attention of the Secretary and the Congress at the expense of internal agency issues, even though the way an agency is managed can have an enormous impact on the quality of its program work.

I am not aware of any occasion when OMB rejected a FMFIA report. If confirmed, I would regularly question all such reports and, if asked by Congress or the President, provide my observations.

The Committee is well aware that questions have been raised regarding the accuracy of the Department of Defense's 1992 FMFIA assurance statement. Both Senator Glenn and Comptroller General Bowsher recently have written to Secretary Aspin questioning former DOD Deputy Secretary Donald J. Atwood's 1992 FMFIA assurance letter. OMB staff are also concerned that DOD's assurance statement may be overly optimistic, and they are currently preparing material for Director Pannetta's transmittal to Secretary Aspin.

**Question 4.** Is it possible to generalize as to what areas or types of programs are most vulnerable to fraud, waste, abuse, and mismanagement?

**Answer.** The areas and types of programs that may be most vulnerable to fraud, waste, abuse, and mismanagement include those with diffused administration, computer system deficiencies, asset management weaknesses, credit management and debt collection activities, extensive use of contractors, and financial system weaknesses.

But given human nature, the complexity of government programs, and the nation's vast size, some degree of fraud, waste, abuse, and mismanagement—as in any human organization—is inevitable. The Administration's challenge is to minimize such actions and to hold government managers accountable for these results.

The Administration's challenge is not simply to add more controls, more regulations, and more procedures. All managers should "expect what they inspect" and be committed to "hands-on" management. They must know that OMB, and the Admin-

istration generally, are keenly interested in management and the significant reduction of fraud, waste, and abuse.

#### IX. PAPERWORK REDUCTION AND INFORMATION RESOURCES MANAGEMENT

*Question 1.* The Paperwork Reduction Act of 1980 created OMB's Office of Information and Regulatory Affairs (OIRA) with a mandate to reduce government paperwork burdens on the American public and to improve Federal information resources management (IRM).

a. What are your views on furthering the goals of the Act to reduce government redtape?

b. Noting that GAO has concluded that information management failures are a root issue in many of the High Risk problem areas, what are the major IRM challenges facing the Federal government generally, and OIRA in particular?

c. What priority do you intend to place on OMB's role in this area?

*Answer.* The Paperwork Reduction Act's goal—to reduce government paperwork burdens—is of critical importance to restoring citizen confidence in the Federal Government.

There is an obvious tension between government's need for information to meet its responsibilities and the public's justifiable anguish about the burdens of providing that data. "Paperwork" also represents a tremendous cost to businesses and the entire economy, thereby impairing U.S. competitiveness. The PRA provides a framework for managing the government's collection and use of information with increasing responsiveness to this valid citizens' concern and the competitiveness challenge.

The agencies have the initial responsibility for ensuring that government information collections have practical utility and minimize compliance costs to the public. OMB has the authority to approve information collection requests which meet specified standards reflecting these objectives. I believe this is a sound approach that, with effective leadership and sustained attention, should ultimately result in reducing government "red tape."

Technological advances must be utilized to this end. For example, I am informed that agencies are beginning to allow the public to respond to government information requests in electronic form. The Internal Revenue Service's electronic filing program is reported to be reducing error rates on tax returns from 16 percent to less than three percent while speeding up the delivery of refunds by as much as four weeks. Similar models must be initiated and, as found practicable, implemented widely.

The standardization of Federal agency systems and procedures can increase efficiency while reducing the public's paperwork burden. If confirmed, I would ensure that OMB seeks public comment on proposed information collections and examines them especially closely when public support is lacking.

As Director Panetta suggested in his response to a similar question, we are living in a new information age which is quickly transforming how business (including government "business") is conducted. OMB should provide leadership so that agencies can use information technology to collect information in the most effective way possible, to analyze such information quickly and efficiently, and to disseminate it to all sectors of the public at a reasonable cost.

GAO's finding underscores the point that sound management of information and information technology can greatly assist the advancement of programmatic goals and improve the administration of programs. The Federal Government's, and particularly OIRA's, principal challenges in this field are to ensure that

- Information resources management and procurement practices optimize the return on Federal investments and impose minimum burdens on the public;
- The agencies' information systems are reliable and secure;
- High quality government information is made available to the public on a timely and equitable basis;
- The application of new technologies occasions a rethinking of basic processes and goals, not merely a "paving of old cowpaths with silicon";
- Confidentiality and privacy are protected; and
- Agencies share information when appropriate.

Other specific challenges include making successful transitions (a) from a paper-based information system to one of electronic records, and (b) from vendor-dependent infrastructures to an open systems environment. The success of these transitions will increase the likelihood of cost reductions and service improvements.

If confirmed, I would place a high priority on OMB's role in this area. Budget realities mean that all Federal agencies will have to try to do the same or more with considerably less staff and funds. Yet effective information resources management

can be a significant tool in helping government deliver high quality, timely service to the public, as well as improving program performance and cost-effectiveness.

**Question 2.** What are your views on the role played by information in the Federal government? What are the costs and benefits of government information? What is the government's obligation to its citizens with regard to government information activities?

**Answer.** As noted in responses to earlier questions, information is crucial to the Federal Government. Obtaining and using such information represents an enormous cost to individuals, businesses, the government itself, and the economy as a whole. Yet accurate, timely, relevant information is essential to rational and effective legislation, regulation, resource allocation, and enforcement—indeed, for virtually all public policy decisions. Information collected by the Federal Government is also an important resource for the business and academic communities.

The Government's obligation to its citizens with regard to information activities, therefore, is to ensure that the costs are justified by the benefits; stated another way, government should create or collect only that information necessary for the proper performance of a governmental function and should do so with heightened sensitivity to the costs and frustrations imposed on the American public.

**Question 3.** Since the Paperwork Reduction Act became effective in April 1981, congressional oversight has found that while OIRA has focused on the Act's paperwork reduction goals, it has failed to comply with statutory requirements regarding other IRM areas, namely, information policy, statistics, records management, privacy, security and confidentiality, and information technology. One reason given for this has been OIRA's concentration of resources on the regulatory review process created by Executive Orders 12291 and 12498.

a. What are your views on OIRA's record of implementing the PRA? What are the major problems involved in implementing such government-wide policies? What will you do to help OIRA more effectively meet its statutory mandate?

b. What are your views on the ability of OIRA to fulfill its statutory mandates under the Paperwork Reduction Act given its exercise of regulatory review power under presidential executive order? Does OIRA have the resources to do both? Should it do both?

**Answer.** I am aware of such criticism of OIRA and the sentiment that OIRA has devoted a disproportionate share of its resources to regulatory review rather than to the other IRM areas. Both Director Panetta and the Nominee for OIRA Administrator, in their testimony to this Committee, acknowledged these concerns.

Ms. Katzen said at that time, and has confirmed with me in frequent discussions, that, after she is confirmed, one of her top priorities would be to evaluate the current structure and allocation of resources within OIRA. She and I agree that OIRA must address this statutory responsibility more directly and comprehensively; and we are personally committed to advancements in this field.

Implementing government-wide policies in this area—across agencies with vastly different missions, structures, resources, and traditions—is a formidable task, we realize. But, if confirmed, I would endeavor to focus some of OMB's most creative brain-power and most effective energies, including Ms. Katzen's, on this field.

As Director Panetta also expressed to this committee, I see nothing inherently inconsistent in OIRA's fulfilling its statutory mandate under the Paperwork Reduction Act and carrying out its regulatory review responsibilities under Executive Orders. Indeed, the two functions seem to me to be interrelated because much of the paperwork burden imposed by the Federal Government is related to its regulatory and compliance efforts.

OIRA's Administrator and I, if confirmed, would endeavor to ensure that this Office has the necessary resources and meets its responsibilities particularly effectively.

**Question 4.** What are your views on the specific professional qualifications and credentials that should be possessed by an OIRA Administrator? What do you consider the most important attributes for the Administrator position and why?

**Answer.** As Director Panetta stated in answering this same question, I believe the OIRA Administrator's primary qualifications should be similar to those expected of any OMB senior manager: highly motivated and capable; committed to public service; dedicated to the job's demands; respectful of the roles of Congress, the President, and his Executive Office; educated and experienced in pertinent fields; adroit at balancing competing interests; and able and willing to work well with OMB's leadership and staff. OIRA's Administrator should have a good understanding of the regulatory process, as well as familiarity with information and technology issues raised by the Paperwork Reduction Act.



**Question 5.** Many people have criticized the quality of Federal statistics, as well as the management and loose coordination of Federal statistical programs. What are your views on this issue?

**Answer.** Although the United States is one of only a handful of countries with a decentralized statistical system, this fact is not surprising given our Federal Government's vast size and organization. More than 70 Federal entities spend some \$2.3 billion annually (excluding the decennial Census) to collect statistical information.

Yet the Federal statistical system is one of the world's best. It produces generally reliable, technically unbiased information while protecting the confidentiality of respondents.

If confirmed, I would strive to have this system improved, nonetheless, in terms of relevance, timeliness, accuracy, and accessibility:

- **Relevance:** Federal statistics today assume the mid-20th Century structures of the American economy and family which prevailed when current systems and classifications were established. The Government's statistics must become more internationally comparable and reflect economic and social changes.
- **Timeliness:** The 43 Federal principal economic indicators are generally released within one month of the end of the period to which they refer; but other Federal statistics are often not produced in as timely a fashion. New collection, analysis, and dissemination techniques should improve their timeliness and utility.
- **Accuracy:** The increased use of new information technologies and restricted sharing of confidential statistical estimates should be examined to improve the accuracy of Federal statistics.
- **Accessibility:** Increasing the consistency of Federal statistical information dissemination standards and practices would improve user accessibility.

**Question 6.** What is your understanding of the current status of and plans for the revision of OMB Circular A-130?

**Answer.** OMB issued Circular No. A-130, "Management of Federal Information Resources" on December 12, 1985, to incorporate in one statement all of the government-wide IRM policies. Since that date, there have been significant changes in the IRM environment, including increased automation of Federal activities, introduction of new information programs by many agencies, and additional pertinent legislation, including the Computer Security Act of 1987 (P.L. 100-235) and the Computer Matching and Privacy Protection Act of 1988 (P.L. 100-503).

A proposed revision of A-130 was published for comment in the *Federal Register* on April 29, 1992. Its final version, recently prepared, reflects the comments received and the President's February 22, 1993, statement, "Technology for America's Economic Growth, A New Direction to Build Economic Strength." This latter document commits the government to "promote the timely and equitable access to government information via a diverse array of sources, both public and private," and to update its policies in such areas as privacy, information security, records management, and information dissemination. I understand that Circular A-130 has been held pending review by the Nominee for OIRA Administrator.

**Question 7.** What are your views on the relationship between OMB and GSA with regard to IRM? What can be done to strengthen GSA's role in IRM?

**Answer.** This relationship is based on complex statutory and practical history. OMB's formal IRM authorities are based on statute and executive order. Under the Budget and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950, as amended, OMB oversees agencies' budget formulation and execution with respect to information technology. The Paperwork Reduction Act directs OMB to provide "advice and guidance to agencies on acquisition and use of ADP and telecommunications equipment and services" and to "develop and implement Federal information policies, principles and standards."

Under the Brooks Act, which is GSA's principal authority in this area, OMB exercises "fiscal and policy control" over GSA's activities to coordinate and provide for the economic and efficient acquisition and use of information technology equipment and services.

Finally, under Executive Order 12046, OMB serves as the President's principal adviser on procurement and management of Federal telecommunications systems.

OMB and GSA have worked together toward these objectives. For example, OMB participates in the FTS 2000 Interagency Management Council and, with GSA, co-chairs the Federal Information Management Resources Management Policy Council. Since the Federal Government spends more than \$24 billion on ADP and telecommunications goods and services annually, it is essential that OMB and GSA collaborate closely.

If confirmed, I would look for additional opportunities for such cooperation which can strengthen OMB's and GSA's roles in IRM.

## X. REGULATORY AFFAIRS

During the last two Administrations, OIRA has reviewed Federal agency regulatory activities under Executive Orders 12291 and 12498. The review process extends from prerulemaking activities to current regulations. It involves the application of cost/benefit analysis and directives such as E.O. 12606 (The Family), E.O. 12612 (Federalism), and E.O. 12630 (Governmental Property Rights). Most recently, this review process was supervised by the Council on Competitiveness, and included a regulatory moratorium.

Throughout the development of this regulatory review process, questions have arisen over its propriety and scope. Issues have included the extent to which OIRA may properly control agency rulemaking decisions, the parameters of Presidential supervision of executive branch agencies, the scope of rulemaking authority delegated to agencies by Congress, and public disclosure and accountability.

*Question 1.* What are your views on regulatory review, its history and its proper role in the regulatory process?

a. Do you believe that OMB has the authority to require an agency to revise, cancel, or postpone a proposed or final regulation that the agency has developed under authority delegated to it by Congress?

b. To the extent you think OMB should have a regulatory review role, please describe the guiding principles that should govern that review. How should that review be carried out? What steps would you take to avoid the criticisms that have been levelled against OMB review?

c. To what extent should OMB regulatory review be supervised by other (non-OMB) staff within the Executive Office of the President?

d. To what extent, and under what rules or procedures, are non-OMB staff within the Executive Office of the President presently (i.e., since January 20, 1993) involved in regulatory review deliberations?

*Answer.* As Director Panetta pointed out in responding to similar questions, OMB, through OIRA, has a central role to play in overseeing regulatory activity in the Executive Branch. OMB, as part of the Executive Office of the President, has jurisdiction across all agencies. With this perspective, OMB is uniquely able to ensure that agency decisions are consistent with the Administration's policies and priorities and that the decisions of one agency do not conflict with policies or actions of another. OMB can thus provide important oversight, including a dispassionate appraisal of the implications of particular agency action, but it should—indeed, must—do so within applicable law.

Since its inception, OMB has conducted regulatory review as part of its role in carrying out agency program oversight. More structured reviews were initiated through Executive Order by President Ford, who issued an Order requiring inflation impact statements, and by President Carter, whose order sought regulatory analyses.

The principles which should govern OIRA's regulatory review are being determined by the current Administration study initiated after the President's January 21st Memorandum on regulatory management. This study includes both the criteria to be used in regulatory review and the procedures that would be followed. OMB's Director has had regulatory input into this study; and OIRA's Administrator and I, if confirmed, would participate with him in the final deliberations to articulate these principles. Participants in this study are fully aware, and intend to be fully responsive to, the legitimate criticisms of past centralized regulatory review.

For the draft regulations to be reviewed by OIRA, I anticipate that most issues will be resolved within OIRA, without the need to go beyond the Administrator and, the Deputy Director, the Deputy Director for Management, and/or the Director. There will be the few situations each year, however, in which Cabinet-level officials will disagree, or in which the President would naturally have a direct interest, for which issues properly would have to be raised to the President for decision.

In my capacity as Special Assistant to the Director since March, I have not discussed particular regulatory matters under review with OIRA or OMB. I cannot comment, therefore, on the extent to which others in the Executive Office, outside of OMB, are involved in regulatory review deliberations.

*Question 2.* What are your views on the previous administration's use of a regulatory "moratorium," and to what extent is it an appropriate mechanism for setting and/or implementing regulatory policy?

*Answer.* I am not directly familiar with the previous Administration's use of a regulatory moratorium. My impression, however, is that it was unfocused and had little coordinated follow-up, despite the heavy, good-faith involvement of many agency officials. "Sunset" review of categories of regulations—related to carefully selected segments of the economy, or to particular groups of affected entities—appears useful,

provided those involved understand clearly what is to be accomplished and follow through with necessary institutional or legislative changes.

*Question 3.* The Regulatory Review Sunshine Act of 1993 (S. 168) would provide public accountability for regulatory review of Federal agency rulemaking activity by presidentially designated offices.

a. What are your views on this legislation?

b. Whether by legislation or administrative direction, to what extent should OMB be required to maintain public records of its oral and written contacts with private parties and agency officials in the course of its regulatory review?

*Answer.* I understand that this legislation was designed to correct the lack of openness in the review process under the previous Administration. As noted in my response to the prior question, the President also wants a more open review process.

At some point, however, the President must be able to receive candid, confidential advice from those who report to him. The procedures to be followed in this Administration to achieve more openness are among the subjects being considered in the current Administration review.

Issues relating to the prior Administration's public records of contacts made in the course of its regulatory review are also being considered in the referenced Administration review. I am aware that the assertions about the lack of a "paper trail" and concerns about the Competitive Council's being used as a conduit for special interests have been a major source of the controversy that surrounded centralized regulatory review under the previous Administration.

I am confident that these matters will be addressed by this Administration's current study group. The President is committed to establishing a process characterized by integrity and more openness. If confirmed, I would work closely with OIRA's Administrator to that end.

*Question 4.* What are your views on the continuation of Executive Orders 12291, 12498, 12606, 12612, and 12630?

*Answer.* These Executive Orders involve regulatory review (E.O. 12291), regulatory planning (E.O. 12498), the family (E.O. 12606), federalism (E.O. 12612), and "takings" of private property by the Government (E.O. 12630). Pursuant to the President's January 21st Memorandum, these Executive Orders continue in effect pending the completion of the current Administration review referenced in my responses to the previous questions.

Many issues have been raised about these Orders and the advantages of some consolidation and/or prioritization among them. I welcome the Committee's views on these matters.

*Question 5.* Some have criticized the manner in which cost/benefit analysis has been used when developing and reviewing Federal regulations. They argue that under criteria established by OMB the costs of regulations often receive more attention because costs are easier to measure than are benefits. Do you agree and if so, what may be done to remedy the problem?

*Answer.* I agree that the costs of government programs or regulations are often easier to measure than the benefits. Costs tend to be imposed up-front; benefits tend to be realized in the mid- and long-term.

My understanding, however, is that, in working with the agencies' regulatory analyses, OIRA devotes more, rather than less, of its efforts to improving estimates of benefits. For example, in OMB's guidance to the agencies on how to prepare the regulatory impact analyses used in developing regulations, twice as many pages are devoted to estimating benefits as costs.

The nominee for OIRA Administrator and I are particularly aware of this criticism and, if confirmed, would strive to devote greater attention to evaluating the benefits of proposed regulations in addition to the rigorous analysis of their costs.

*Question 6.* What are your views on steps OMB could take to improve the effectiveness of the Regulatory Flexibility Act?

*Answer.* As someone who has been involved in small business, I believe the Regulatory Flexibility Act is important because it focuses attention on the regulatory burdens imposed on small businesses, small governmental entities, and nonprofit organizations. I am aware that there has been concern about the Act's implementation and that GAO has made certain recommendations which are incorporated in pending legislation.

The issue is also being considered by the current Administration study of regulatory review. If confirmed, I would welcome the opportunity to work with the Committee in considering various ways to strengthen the Act's implementation.

*Question 7.* What thoughts do you have on the relation between the Administrative Procedure Act's concern for public participation in agency rulemaking and OIRA's regulatory review process?



*Answer.* The Administrative Procedure Act (APA) provides that agencies promulgating regulations should afford interested entities notice and opportunity to comment. The comments are properly directed to the agencies because they are responsible for developing regulations; and the regulatory review process should not be viewed, or used, as a way to circumvent the APA.

A critical component of the Administration's current study of regulatory review is the development of procedures to ensure that the facts on which regulatory decisions are based are placed in the agencies' public files and that the OIRA review process is not otherwise used as a conduit for non-governmental entities.

*Question 8.* What steps do you believe OMB should take to involve the public in regulatory review deliberations? What regulatory review documents do you consider appropriate for public inspection? At what point in the process should these documents be made available to the public?

*Answer.* These are all important questions, arising from both the previous Administration's experience and a concern that the regulatory review process be characterized by integrity and fairness. Hence, they, too, are part of the current Administration study of regulatory review, and I welcome the Committee's views.

*Question 9.* What are your views on risk assessment? What should be the relationship between risk assessment and risk management?

*Answer.* Risk assessment is a critical part of developing regulations in health, safety, and environmental areas because, essentially, it provides the factual basis for the need for the regulation and is the standard against which the regulation's effectiveness can be measured.

Risk assessment therefore should be based on reasonably obtainable, objective, scientific or technical data. Risk management then is the policy step: to determine how to manage—or regulate—the risk, so as to bring it within an acceptable level in the context of all circumstances. The two are separate, but irrevocably related, aspects of regulatory decision-making.

*Question 10.* What are your thoughts on risk communication and other uses of information as possible alternatives to traditional modes of prescriptive regulations?

*Answer.* Risk communication—i.e., the provision of information about potential risks—can be an important alternative to government intervention. For example, rather than banning a product that is potentially dangerous for certain segments of the population, its side-effects could be communicated effectively.

Like any regulatory strategy, the provision of information will likely be effective in some circumstances, but not in others. This strategy should be regularly considered as an alternative to traditional modes of prescriptive regulations, yet applied only in appropriate instances. Consideration should be given to, among other issues, the nature and form of the information to be provided, the type and magnitude of the potential harm, and the profile of the intended audience.

## XI. HUMAN RESOURCE MANAGEMENT

*Question 1.* What are your views on OMB's role in personnel and human resources management?

*Answer.* By statute, the Office of Personnel Management (OPM) is responsible for providing the President policy advice on personnel matters, and for executing, administering, and enforcing civil service laws and regulations.

OMB examines the approximately \$100 billion annual cost of pay and benefits of the Federal civilian work force (excluding the Postal Service). In addition, OMB has two specific responsibilities under the Federal Employees' Pay Comparability Act of 1990: (1) The Director is one of the three officials designated by the President as his Pay Agent; and (2) OMB is responsible for reviewing, in consultation with OPM, agency requests for special pay authority for critical positions.

Sound management of people is central to achieving one of the President's important charges to OMB: reducing the costs, and improving the efficiency, of the Federal Government. OMB's role should be to provide the President advice on personnel policy matters, including pay and benefits, in the broader context of his economic and public policy agenda for the nation as a whole.

OMB should further advise the President on how to allocate resources and create a work environment and attitude toward public service which can optimize the contribution of Federal workers: to attract and retain a high-quality, motivated work force in the most cost-effective way. By close collaboration with OPM, OMB's Deputy Director for Management should expand the work of the Federal Quality Institute, examine potential reforms of the Federal employment system, and play an active role in recognizing the importance of public employees.

*Question 2.* What are your views on the Progressive Policy Institute's proposal that the President create what it describes as a mission-driven, result-oriented per-

sonnel system that would give managers greater flexibility, encourage rewards for excellent performance, and convert from the General Schedule classification to a broad-band approach?

*Answer.* David Osborne, in one of his chapters of *Mandate for Change*, observed that, "to change behavior within the Federal Government, we must change the basic incentives that shape that behavior." This Administration wants to shift the management focus from rules, *per se*, to results. To accomplish this—and to realize the long-term behavioral changes essential to entrepreneurial government—Federal workers must be encouraged to take risks and be held accountable for the quality and effectiveness of their efforts. The problem of the Federal bureaucracy is not the workers, but the system in which they labor.

The National Performance Review, at the Vice President's urging, will address the need for these changes in Federal employment and management. A broad-band approach to General Schedule classification, which has also been studied by the National Academy of Public Administration, may be one of the NPR's recommendations, but it would be premature at this point to identify any specific initiatives. If confirmed, I would work closely with the Vice President, OPM's Director, OMB's Director, and the Congress to develop whatever proposals emerge from the NPR.

*Question 3.* What are your views on encouraging more experimentation with classification, pay, and performance systems under the Civil service Reform Act of 1978?

*Answer.* Carefully constructed demonstration projects can be very useful means of testing innovative alternatives to classification, pay, and performance systems. Their value depends, however, on avoiding common pitfalls:

- Inaccurate project design,
- Faulty implementation,
- Vague and, in some cases, non-existent evaluation measures, and
- Inconclusive outcomes.

Once a demonstration project is initiated, it should not be "dragged out" without a final decision: If it works, the model should be implemented more widely; if it does not, it should be scrapped.

I favor demonstration projects with a clear purpose, active management involvement, and reasonable criteria for evaluation by measurable outputs. The "bottom line" must always be whether the experiment results in measurable improvement, such as greater output, lower cost, or enhanced quality. In the case of civil service reforms, I strongly endorse such experimentation.

*Question 4.* Do you think greater authority should be given to line managers to make human resource decisions such as pay increases, promotions, hiring, etc.? What are the potential benefits and risks of such delegation of authority?

*Answer.* Greater authority should be granted to line managers, in my view, only if greater accountability accompanies the change. Managerial control in some of America's great companies has shifted to managerial support; but given human nature, objectives must be clearly articulated, results candidly measured, and accountability established.

Of particular concern to me, however, is the degree to which authority can be delegated to line managers, those who have the "customer interface" and need to make on-the-spot decisions. The "bureaucratic culture" tends toward control, centralization, and "chain of command." Since traditional authority does not motivate behavior in the same manner as in past generations, many of the nation's most successful organizations today treat their employees more like volunteers, but hold them accountable for specific results.

It is my understanding that Federal Government line managers have been given more authority in recent years. For example, the Federal Employees Pay Comparability Act of 1990 gave agency managers the authority to issue recruitment and retention bonuses of up to 25% of an employee's salary. In addition, managers may circumvent the competitive hiring process for hard-to-fill occupations, and management already looks to line managers for staff evaluations and recommendations on pay increases and promotions.

As in any case of delegation, there is risk of poor judgment, cronyism, waste, and abuse of new authority. That is why I prefer to talk, and act, in terms of "responsibility" rather than "empowerment." But if confirmed, I would support systems granting line managers greater authority so long as the proposed change includes adequate safeguards to require responsible action.

*Question 5.* A recent OPM study reported that few agencies link their business planning with human resource planning. What can OMB do to help agencies integrate human resource planning with strategic planning? How can OMB help agencies link their human resource and general management capacities with their mission?

*Answer.* It is my understanding that the OPM study and report to Congress, *Investing in Federal Productivity and Quality*, indicated that the use of work-force planning by the Federal agencies has been almost haphazard. Yet some agencies, such as the Social Security Administration, the Internal Revenue Service, and the Department of Defense, with large numbers of employees and relatively stable missions, have made work-force planning an integral part of their budget and program planning process.

S. 20 and its companion House bill require that agency strategic plans include descriptions of the human resources which will be required to meet goals and objectives. If confirmed, I would urge OMB's Director that we work closely with the agencies to ensure that they integrate people—their costs, training needs, skill mix, and employment framework—into their strategic plans prepared pursuant to the performance measurement methodology.

OMB, as part of government-wide reengineering, should ask the agencies tough questions: What value is added by certain layers of middle management? Are policy-makers and on-the-line workers adequately supported to accomplish their tasks? Have job assignments and definitions been altered to meet current missions? Do staffing levels reflect current workloads? Do staffing profiles match job needs? From these and similar considerations, OMB can assist the agencies in making difficult choices and optimizing performance.

*Question 6.* GAO has described to the Committee how, traditionally, the Federal government has viewed its human resources as costs rather than as one of its most strategic, valuable resources, and has invested comparatively little in training. Do you believe that overall the Federal government underinvests in the training and development of staff? If so, given current budgetary constraints, how will the Federal government be able to meet this investment need?

*Answer.* This Administration is particularly committed to training to help Federal employees, and all American workers, develop their vocational potential.

OPM estimates that, in FY 1990, the Federal Government spent more than \$1 billion on training and development activities for its civilian work force (excluding the Postal Service). Variations and inconsistencies across government in the quality and value of training, however, have been documented by the Volcker Commission and GAO. Anecdotal evidence leads me to support the view that, despite the huge sum of money spent on training, the Government does not do a particularly noteworthy job of training its civilian work force.

To address this issue, OMB recently approved regulations developed by OPM which require agencies to assess formally the development and training needs of its work force. This initiative seeks to link dollars spent on training with organizational goals, objectives and performance. Fundamental to this effort is the recognition of employees as a vital agency resource.

I understand that OPM is now working with agencies to implement these regulations and ensure that agency practices are comprehensive, uniform, and ongoing. Furthermore, effective implementation of this initiative will help agencies make appropriate investments in training in the face of tight budgetary constraints.

*Question 7.* What are your views on, and what can OMB do about, the rapid turnover of political appointees in Federal government service?

*Answer.* OPM data for 1986–1991 shows Presidential appointees stayed in their positions an average of 2.7 years, non-career Senior Executives stayed 1.8 years, and career Senior Executives stayed 3.5 years. President Clinton has encouraged his nominees prior to their appointment to make a personal commitment to his Administration and to serve out their terms of office.

I hope this Administration's appointees remain in place for longer periods than past practices. But I believe some turnover of political appointees is healthy. The President and the public are both well served by periodic arrivals of new appointees who bring fresh energy and ideas to their jobs. And the President and the public are both well served by departures of appointees for whom there was not the correct "fit" in their assignment or whose energy or job satisfaction has diminished.

The President has a strong personal interest in improved management of the Federal Government, and this signal from the Oval Office should have a favorable impact on staff retention and performance. OMB should help communicate this mission and spirit to political appointees, as well as all Federal workers.

## XII. PROCUREMENT POLICY

*Question 1.* Congress gave OMB'S Office of Federal Procurement Policy (OFPP) a leading role in the management of the government's \$200 billion a year procurement program. There is a perception, however, that OFPP has not had the support and commitment of the OMB Director necessary to fulfill its role.



a. What are your views on the major challenges facing Federal government procurement and what are your priorities for OFPP?

b. How will you reinvigorate OFPP and what role will the Administrator play within OMB?

*Answer.* The major challenges facing Federal procurement are to give managers greater flexibility, to control costs more effectively, to increase productivity with fewer people and fewer tax dollars, and to embrace some of the private sector practices which have been made possible by new technologies. At the same time, the system's financial and ethical integrity must be maintained.

The \$200 billion spent annually through the Federal procurement process is roughly one-seventh of the entire Federal Budget. Procurement policies and procedures therefore are critical, and they must provide for the conduct of open, honest procurements in an efficient, effective manner.

The Federal Government needs to move, with OFPP's leadership, to a better system that is simpler and more business-like, characterized by greater use of automated processes, and more dependent on commercial items and services. It must increasingly be based on competitive procedures. Regulations which do not contribute to the system's efficiency and integrity, or are unnecessarily burdensome, must be discarded.

OFPP must establish and oversee public policy in an area that has become very complex and highly visible. Since its 1988 reauthorization, OFPP has led in the formulation and direction of procurement policy through issuance of policy letters and participation in the Cost Accounting Standards Board and Federal Acquisition Regulatory Council.

If confirmed, I would work closely with the OFPP Administrator to devise not only procurement reforms for consideration by Congress and the President, but also new methods for ensuring compliance with these policies. I would expect the Administrator to be a valued adviser to the Director, the Deputy Director, and me on procurement issues.

The NPR "Reinventing Support Functions Team" is studying current procurement practices, and I expect that the Vice President will advocate extensive recommendations for Congressional consideration and administrative action.

In addition, OMB's internal study, "OMB 2000," is considering the role and relationship of OFPP within OMB and with its external clientele. Implementation of these reviews' recommendations, with special emphasis by a new Deputy Director for Management, should reinvigorate OFPP.

*Question 2.* A July 1992 Merit Systems Protection Board survey of the acquisition workforce found major dissatisfaction among both Government and private sector individuals involved in the procurement process. According to the survey, the increase in procurement regulations has contributed to delays in awarding contracts and a belief that the Federal Government does not always achieve the best or most cost-effective services. What can be done to make needed improvements in the procurement process?

*Answer.* I generally agree with these survey findings and look forward to reviewing the specific recommendations of a follow-up survey being conducted by OFPP and MSPB. The procurement process can be improved, I believe, by specific actions, some of which are underway. For example, OFPP has established new competency standards for all contracting officials. This will help agencies train and certify their people in the necessary contracting skills.

OFPP will continue to curb the regulatory burden through its Procurement Regulatory Review Program. Since its inception in 1987, this program has reviewed more than 900 procurement regulatory actions, and OFPP has disapproved or questioned 20% of them. More aggressive review will characterize this program in this Administration.

I also agree that the Government needs better value when contracting for services. To this end, OFPP issued a major policy in 1991 that requires service contracting to be "performance-based" to the extent practicable. This requires the Government to define the work in terms of "what" is to be performed rather than "how" it is to be performed. This policy affects the entire acquisition process from planning through award and administration. Implementing regulations are now being put in final form, with training and procedural guidance to follow.

Director Panetta also recognizes the problems in service contracting. To begin correcting these problems, on March 16th, he requested agency heads to determine (a) whether existing or proposed contracts are necessary, and (b) whether the agency is actually getting the specific quality of services for which it contracted. If confirmed, I would oversee the OFPP Administrator's evaluation of the agency reports due by June 30, 1993, and advise the Director on actions to be taken.

Raising the small-purchase threshold from the current \$25,000 level to \$100,000 would permit the use of simplified acquisition procedures for a large number of purchases. This would constitute a major advance in easing the burdens on Federal contracting personnel.

**Question 3.** Critics have characterized the Federal Government's acquisition process as "archaic and unnecessarily paper intensive" which hinders effective and timely procurement practices. Small businesses are particularly concerned. Will OFPP take an active role in developing guidelines for the electronic dissemination of information for purchase transactions?

**Answer.** Yes. Although I plan to accelerate these efforts if I am confirmed, OFPP is already addressing this issue in several ways. First, OFPP and other agencies are co-sponsoring an electronic data interchange (EDI) project. If fully implemented, it would provide several million small businesses the opportunity to quote electronically on more than 50,000 of the Government's small purchase Requests for Quotations (RFQ) daily. A pilot test of this project is currently underway at Wright-Patterson Air Force Base. Preliminary results are very encouraging: Competition has increased, and prices have decreased.

OFPP is also assisting GSA in a project to use Federal Bank Cards in concert with the electronic data interchange project so that small businesses can be paid by a commercial bank within two days of delivery. This obviously helps with cash flow problems experienced by many small businesses.

**Question 4.** 1989 amendments to the OFPP Act established new and stricter rules on "revolving door", post-employment activities of many procurement officials in the Federal Government. These "Procurement Integrity" provisions set off a loud protest from both industry and government employees as being overly burdensome and a deterrent to hiring qualified personnel in the Government. The operation of these conflict-of-interest restrictions was suspended by law (the Ethics Reform Act of 1989) from November 30, 1989 to December 1, 1990, and then suspended again (P.L. 101-510) through May 31, 1991.

a. Now that the provisions have been in force for a year and a half, do you think that they are successful and necessary in preventing conflicts of interest and potential undue influences over government procurement personnel?

b. One of the provisions of law may work to bar a procurement official from working for many government contractors in his or her field of expertise for two years after leaving government. Is there any indication that such restrictions have proven to be a deterrent to hiring highly qualified procurement officials?

c. What priority will conflicts of interest prevention and ethics in procurement be given by the OFPP?

d. Do you see the need for legislation in this area, and, if so, for what purpose?

**Answer.** Preventing conflicts-of-interest is critical to the integrity of the Federal procurement process. I am not aware, at this time, of any needed changes in these laws, but plan to study this area if I am confirmed.

I have been advised that OMB does not have data indicating to what extent, if any, the two-year restriction has served as a disincentive to public service or has prevented the hiring of qualified procurement officials.

These and similar ethics issues will continue to be a very high priority for OFPP if I am confirmed.

I understand that the 800 Panel, in its recent report, has proposed revisions to the procurement integrity statutes. Before commenting on whether additional legislation is needed in this area, I need to analyze those proposals, invite the opinion of the Committee and other interested parties, and obtain counsel both from OFPP staff and from other external authorities.

**Question 5.** Recent efforts at procurement reform seem to raise the specter of eliminating or limiting GSA's oversight of government computer buys under the Brooks Act. Yet the Committee believes GSA is needed to oversee how the government buys computers. What is the level of your commitment to this oversight tool, and what are your thoughts on improving it?

**Answer.** Given the magnitude of the Federal Government's likely purchases of computer equipment and its critical role in so many areas of government service, close oversight of government computer acquisition and management is essential. The Federal Government is expected to spend more than \$25 billion on information technology in FY 1993.

Since 1965, GSA, subject to OMB's fiscal and policy oversight, has been responsible under the Brooks Act (40 U.S.C. 759 *et seq.*) for coordinating the purchase, lease and maintenance of computer and communications equipment and services by Federal agencies. In 1986, the Congress reaffirmed and expanded GSA's authority.

Purchasing large computer systems takes considerable technical and program expertise. Over the years, GSA has fostered development of that expertise through promulgation of its rules for buying computers, through its review of individual acquisitions, and through its management reviews of agency practices.

Some observers believe that GSA's current role is anachronistic and reflects the bulky and relatively great expense of computers in 1965. Today, however, computing has become highly distributed, and computers and software are often "off-the-shelf" commercial commodities.

Others contend that GSA's central oversight role should be continued and improved. Determining the appropriate balance, regarding computers and other procurement issues, between central management oversight and agency discretion will require careful consideration. I have already communicated with the President's nominee to head GSA, whose background is in the computer technology industry; and if confirmed, I would study these issues jointly with him.

*Question 6.* What do you believe are the major challenges facing OFPP, and how do you propose to address them?

*Answer.* The major challenges facing OFPP parallel those noted in my response to the first question in this section. OFPP must find solutions to the inefficiencies that continue to burden the procurement process: the process is too slow, it does not always result in best value, and it is highly regulated and often inflexible.

In terms of addressing these problems, OFPP has substantial regulatory and policy authority—and, if confirmed, I would advocate vigorous exercise of those authorities. As part of OMB, OFPP can use OMB's authority and influence to correct wasteful and inappropriate procedures.

I intend for OFPP to continue to

- Develop and implement new and better contracting policies and practices,
- Ensure that the regulations being issued are needed and appropriate,
- Examine proposed legislation to ensure that it, too, will improve Federal procurement, and
- Further the integrity of the procurement process through sound cost accounting standards and practices.

The start of a new Administration can occasion serious and comprehensive rethinking of procurement policy.

*Question 7.* What are your views on the effectiveness of Circular A-76? What steps would you take to improve it?

*Answer.* Relying on the private sector to perform commercial activities, where the practice is cost-effective, makes commercial sense. OMB Circular A-76 and the efforts of previous Administrations to force agencies to contract out, however, have had mixed success. The private sector, agencies, employees, unions and Congress have raised both philosophical and procedural concerns about the Circular:

- Whether a function is inherently governmental or commercial,
- How legitimate employee rights are protected,
- Whether performance by contractors or in-house employees is cost-effective over time,
- Whether a level playing field can be maintained among all participants, and
- How the cost-comparison process can be shortened and simplified.

Circular A-76 and the larger questions of contracting need to be reviewed. As the Committee is aware, OMB's Director has recently asked the agencies to review current contracts and contracting administration procedures. The resulting information will be considered in the review of the Circular, as will the views of interested parties.

### XIII. CONTRACT MANAGEMENT

*Question 1.* In December 1992, OMB released a report which concluded that inadequate management of government contractors has led to billions of dollars in waste, fraud and abuse. What plans do you have for improving contract management?

*Answer.* In response to that report, which identified more than 250 weaknesses or inadequacies in the management of Government contracts, a series of corrective actions are underway:

- Clarification of the intent of several cost principles in the Federal Acquisition Regulations to eliminate the potential for paying unallowable contractor costs;
- Development of statutory language which would impose certification requirements on civilian agency contractors and certain penalties;
- Examination of various alternate means for administering contracts; and



- Improved coordination between the contract administrator and the contract auditor, through better planning and communication, so that the backlogs of unaudited contracts can be eliminated.

In addition, if confirmed, I plan to assess carefully the agencies' reports to OMB summarizing the findings of the services contracting review they have undertaken in response to the OMB Director's request. Those reports may well point to new or expanded reforms that are needed to make contract management more effective.

*Question 2.* Most observers of government contracting believe that many of the problems in this field have come from FTE ceilings established by OMB, which have forced agencies to contract for services even when it was not cost-effective to do so.

a. How will the President's administrative and personnel cuts affect this issue?

b. Would you favor providing agencies more managerial flexibility to determine when it was appropriate to contract out?

*Answer.* While some have posited OMB's imposition of FTE ceilings as a major contributor to problems in Federal procurement, it is not clear that such ceilings are a primary source of those deficiencies. Indeed, the recent OMB-sponsored SWAT Team which examined twelve civilian agencies' contract administration practices, recommended more than 100 changes in statutes, policies, regulations, and procedures, but did not identify FTE ceilings, *per se*, as a principal cause of the contract administration inadequacies which the study documented.

OMB looks to the heads of agencies to allocate available FTEs and other resources in such a manner as to maximize their effectiveness. During the FY 1995 Budget process, OMB plans to review all agencies' procurement practices and funding requests, especially as they pertain to contracting. OMB will simultaneously analyze the agencies' projected FTE needs, including personnel in procurement and contract management offices.

In these reviews, OMB's Director will reaffirm to the agencies' senior management the ongoing requirements to (a) assess carefully the need to acquire goods and services by contract, (b) identify those functions that are inappropriate to acquire by contract, and (c) ensure that the Government gets its money's worth through the procurement process.

As a result of concerns raised previously by Senators Pryor, Kerry and others, OMB's Director has tasked agencies with a thorough review of their services contracting programs and will address those reviews in the FY 1995 Budget process.

I understand that agencies' contracting out work formerly performed by eliminated FTEs would be unlikely because agency budgets would be reduced by the amount of the pay and benefits for these positions. This will ensure that the positions are eliminated and that funds will not be available to contract for the activities associated with those positions.

Agencies, in the NPR and OMB Management and Budget Review processes, are being challenged to ask of every process, person, and task, "Why are we doing this?" and "What would happen if we were to stop doing this?" The result, it is hoped, will be a consolidation and/or reduction of many functions, permitting the phased reduction of FTEs planned by the President.

With regard to any additional reductions in agency staff and administrative resources that may become necessary, OMB will, I understand, first urge agency senior management to identify where such cuts can be properly made. The Director and Deputy Director are sensitive to the need to maintain sufficient staffing levels to safeguard against fraud and waste in procurement.

I favor giving to the heads of agencies primary responsibility—including sufficient managerial flexibility—for managing their organizations, so long as they are held accountable for specific results.

*Question 3.* Federal agencies are not required to account for equipment furnished to contractors. Instead, they rely on contractors to tell them the status of such government furnished equipment (GFE). Frequently, the result is that the government and its contractors cannot account for billions of dollars worth of GFE. Would you recommend changing these procedures to better account for GFE?

*Answer.* DOD currently has property (facilities, materials, and special tooling and test equipment) valued in excess of \$77 billion in the hands of contractors. The management of this property, as well as that furnished by other agencies to their respective contractors, has long been an issue. Congress, GAO, and the Inspectors General continually press for stronger and more elaborate control mechanisms.

The current regulations provide that contractors shall generally be required to furnish all property necessary to perform Government contracts. If the Government provides property, it must be monitored and controlled in the same manner as contractor-owned property, with an approved property accounting system. The contrac-

tor must submit annual reports detailing all Government property in excess of the amounts needed to complete the contract for which the property was furnished.

The reliance on contractor property control systems, in lieu of Government systems, eliminates the necessity of maintaining redundant systems (one Government and one contractor) and helps reduce contractor paperwork and day-to-day property management expenses for tagging, storing, auditing, and record updating.

In view of the continual criticism of the reliance on contractor systems, however, the Defense Department has begun an initiative to provide more direct Government information on property that has been furnished to contractors. This system's major components are now coming on-line for testing. These new procedures should provide more accountability and visibility for Government property. If they work for DOD, they should be tried in the civilian agencies.

#### XIV. INTERGOVERNMENTAL RELATIONS AND GRANT MANAGEMENT

*Question 1.* Do you think the Federal government should rethink its role and responsibilities in funding and delivering services through states, local governments, and non-profit organizations? If so, what is your vision of the Federal government's role? Should some responsibilities be given to the states and localities and others eliminated?

*Answer.* Yes, the Federal Government needs to re-examine the pattern of Federal/State/local relationships with the view toward identifying the most efficient way to administer programs and ensure high standards of service delivery. This Administration recognizes that States, local governments, and nonprofits are the leaders in program innovation, and they need the flexibility to manage programs and deliver services to meet citizens' needs.

To this end, OMB has already begun to explore with States and local governments innovative, streamlined ways to manage Federal programs. The NPR is studying ways to enhance the Federal/State/local partnership. Also, OMB's Deputy Director, Dr. Rivlin, has written authoritatively on this subject. If confirmed, I would work closely with the Vice President and her to recommend to Congress potential changes in the respective roles of these government entities.

*Question 2.* What are your views on the Progressive Policy Institute's recent "federalism" proposals, such as to appoint a federalism czar to develop a New Federal Compact with the States to sort out responsibilities for financing and delivering services, and to replace most grant programs with "Challenge Grants"?

*Answer.* I believe these proposals, as outlined in *Mandate for Change*, merit serious consideration, though I might differ with their proposed means of sorting out the allocation of such responsibilities. For example, the challenge grant concept would allow States greater flexibility in exchange for accountability and results. But I am not convinced that such a realignment of intergovernmental responsibilities requires establishment of any new office or position.

The NPR is identifying ways in which the Federal Government can work with the States to improve the quality of government services. As a result of OMB's Management and Budget Reviews, one or several pilot projects with States, similar to the PPI illustration, may be proposed.

*Question 3.* There is much debate about Federal regulatory burdens placed on State and local governments, specially unfunded mandates. What are your views on this issue and what would you seek to do as OMB Deputy Director for Management?

*Answer.* This Administration recognizes that Federal mandates impose a significant fiscal burden on the States' capacity to administer programs efficiently and effectively. Since 1982, the Congressional Budget Office has been required to estimate the costs of proposed legislation with an anticipated fiscal impact on State and local governments above \$200 million. Various executive orders also require agencies to assess the proposed impact of Federal policies on States. A recent Advisory Commission on Intergovernmental Relations analysis of the CBO estimates found that major Federal laws imposed at least \$8 billion in costs on State and local governments between 1984 and 1991.

If confirmed as OMB's Deputy Director for Management, I would encourage program innovation at the State and local levels, would work with their leaders and Congress to find innovative and streamlined ways to administer programs, would seek to identify and reduce unfunded mandates, and would strive to ensure that State and local governments are consulted before the Federal Government acts on these matters.

*Question 4.* In the past, many experts have recommended that OMB should be the "point" agency in leading and coordinating the Federal Government's federalism policies. In recent years, the agency has appeared to give little attention to this role, despite President Bush's reissuance of the E.O. How would you define OMB's posi-

tion, and what are your views on this function? In your opinion, what role should OMB play in managing and coordinating intergovernmental policies and programs?

*Answer.* OMB does maintain an intergovernmental liaison with the Federal agencies, State and local representational associations, and State and local government officials. OMB staff review agency budget requests, proposed regulations, and draft legislation to identify the likely impact on State and local governments. In the past few years, I understand, OMB has led initiatives to relieve State and local governments of overly burdensome Federal administrative regulations, assisted in speeding the approval of Federal waivers to State and local governments, and formulated block grant proposals.

OMB is also tasked with ensuring that Federal agencies comply with the principles, criteria and requirements outlined in Executive Order 12612, on "Federalism." The order directs that, among other things, agencies (a) adhere to strict Constitutional principles, (b) grant States maximum administrative discretion in administering national policies, (c) encourage States to develop their own policies to achieve program objectives, and (d) consult with appropriate officials and organizations representing State and local governments.

I would expect that OMB will continue to play a major role in coordinating Federalism policies in the future. The President's appointment of Dr. Rivlin—a prominent advocate of such rethinking of the responsibilities of Federal, State, and local governments—as OMB Deputy Director indicates to me his view that OMB should play a leading role in this discussion.

*Question 5.* There appears to be an increased number of requests for, and grants of, waivers to Federal program rules and regulations that allow State and local governments to experiment with new ways to administer the programs. What are your views with regard to waivers? What principles would you use to govern approval or denial of waiver requests.

*Answer.* The Federal Government must be careful that it is not so inflexible that it stifles local initiatives that can lead to less costly or more effective programs. Waivers can give State and local governments healthy latitude in complying with Federal mandates.

At the same time, President Clinton has indicated that, when a State receives a waiver for a demonstration project, rigorous evaluations and accountability must be incorporated into the arrangement. States will be encouraged to duplicate successful pilot projects.

Program agencies, such as HHS and Agriculture, must play a key role in granting waivers. But OMB should encourage and help design them where justified, as well as coordinate efforts when a local entity requires waivers from several different Federal agencies.

*Question 6.* The Federal Grant and Cooperative Agreement Act of 1977 required OMB to conduct a study "to develop a better understanding of alternative means of implementing Federal assistance programs, and to determine the feasibility of developing a comprehensive system of guidance for Federal assistance programs." The result was a report entitled "Managing Federal Assistance in the 1980's." If you were asked to develop "alternative means" for delivering and managing Federal assistance in the 1990's, would it differ from the system used today? How?

*Answer.* OMB is considering alternative methods for delivering, managing and assessing the performance of Federal assistance programs. The major challenge facing grant and assistance management is to obtain better program results with fewer dollars. To realize this objective, partnerships with State and local governments, universities, and other grantees need to be established and strengthened.

Working with State and local governments, universities, and other nonprofit organizations, OMB will seek to

- Reevaluate overhead issues, by
  - Revising and perhaps conforming certain cost principles;
  - Considering the feasibility of a flat rate (percentage) for reimbursing certain grantees for grant overhead;
- Simplify and improve the grants delivery process, by the encouragement of Federal agencies in
  - Using, whenever possible, fixed price grants instead of cost reimbursement-type grants; and
  - Improving the process for developing, revising and issuing grant administration guidance and associated agency regulations; and
- Strengthen performance measurement, by
  - Collaborating with Federal agencies and State and local governments to develop more effective measures for assessing the effectiveness of major grant programs; and



—Employing audit procedures developed for State, local, and other independent auditors to evaluate grantee performance.

*Question 7.* What steps will you take to improve compliance with the Regulatory Flexibility Act as it applies to small governments?

*Answer.* My response to Question X(6) addresses this subject.

*Question 8.* The development and use of indirect cost rates by federal grantees has received considerable public attention over the last several years. If there is a problem, what is it? What recommendations do you have for making changes, if any are needed?

*Answer.* The recent attention to indirect cost rates involves research awards to universities. Stanford and other universities were found to have charged Federal research projects for questionable items and to have computed indirect cost rates which were not in accordance with the guidelines set forth in OMB Circular A-21.

To address these problems, OMB published a revision to that Circular. It specifically identified additional items of unallowable costs and established a 26 percent cap on the administrative components of the indirect cost rate, effective with each institution's first fiscal year beginning on or after October 1, 1991.

Subsequently, an OMB-chaired task force recommended further revisions to the Circular. A proposal published for comment in the *Federal Register* on December 9, 1992, clarifies definitions and stipulates the charging and accounting practices for many common items of cost. Continuing study and consultation with representative grantees undoubtedly will be necessary.

## XV. PROPERTY MANAGEMENT

*Question 1.* What do you believe are the major challenges facing the management of Federal government property, and how do you propose to address them?

*Answer.* The major challenges relate to three objectives in making optimum use of Federal property: acquiring it only when it is cost-effective to do so and when other Federal property is not available, managing property to its highest and best use, and disposing of property in ways that ensure the greatest return to the public.

Although the Federal Property and Administrative Services Act of 1949 attempted to consolidate property management responsibility under GSA, other statutes since that time have dispersed authority across various agencies, resulting in a fragmented approach to property management and disposition. In its September 27, 1991, report, "Asset Management, Government-wide Asset Disposition Activities," GAO lamented the absence of a government-wide policy and any central control regarding asset disposition.

To address this problem, OMB should work closely with the Congress, GSA, and the agencies to develop clear policies on the acquisition, use and disposal of Federal property and to establish an effective mechanism to oversee how agencies are managing property. If confirmed, I shall seek further counsel from GAO and make this subject a prominent and recurring agenda item in my collaboration with GSA's Administrator.

*Question 2.* In numerous reports, GAO has raised questions about current federal property management practices and the property management activities of the General Services Administration. How do you view the effectiveness of current coordination between OMB and GSA with regard to property management? What changes or improvements would you make in this area?

*Answer.* My response to the first question must separately address (a) coordination between OMB and GSA regarding government-wide Federal property management practices, and (b) their coordination on GSA property management activities. With respect to the first issue, OMB believes policies and procedures must be established for overseeing the way the Government manages Federal property. OMB has been encouraging GSA to develop such a proposal and expects to receive a draft in the near future. Meanwhile, OMB has worked with GSA on an ongoing basis to ensure compliance with the Federal Property and Administrative Services Act of 1949.

Regarding GSA's property management activities, GSA's role as a provider of central services must be examined. OMB believes GSA should be involved in the provision of central services only when one or more of the following conditions is present:

- Economies of scale are such that consolidation of services would achieve overall savings not otherwise achievable,
- Unique expertise is required, making it impractical to have multiple providers of services, or
- The procedures required to acquire and deliver the services present such major barriers to entry that replicating the procedures would be wasteful.

OMB and GSA have had a continuing dialogue on these issues. Given the constantly changing marketplace and continual changes in technology, the determination of what services should be provided centrally, and which are better left to the agencies, must be ongoing.

The NPR is studying this perennial question in the context of today's facts. If confirmed, I would seek to apply the NPR's findings, my private-sector property management experience, and advice from Congress in advising OMB's Director. The results will be reflected in OMB's review of GSA and agency policies and budgets.

**Question 3.** What are your views on the ability of GSA to exercise operational control of federal property? To what extent do you believe that GSA's property management role should be as a direct service provider as opposed to asset management oversight?

**Answer.** GSA does not have the authority, resources, or expertise to exercise operational control over all Federal property. But its current control—limited to public buildings, excess property, and acquisition of certain types of personal property (roughly ten percent of space and less than one percent of land)—is limited to only a small portion of the Federal Government's total property holdings. The Departments of Defense, Interior, Agriculture, Transportation and Veterans Affairs each manage large holdings of Federal property.

Given the numerous authorities and agencies involved in property management, OMB believes there is a need for Executive Branch oversight of the way the Federal Government acquires, uses and disposes of property. It is my understanding that this oversight responsibility was envisioned for GSA in the Federal Property and Administrative Services Act of 1949; but over the years, other laws have superseded the Act and narrowed GSA's focus.

As noted in my response to the previous question, OMB staff are working with GSA to develop a strategy for oversight of Federal property management. My bias is toward an asset management oversight role, but I look forward to extensive discussion with GSA staff, the Congress, the agencies, and other concerned parties before reaching any conclusions.

**Question 4.** What are your views on the policies behind and the current operation of the Federal Building Fund?

**Answer.** The original objectives of the Federal Buildings Fund were to

- Charge commercial-equivalent rents on all properties (including government-owned buildings) to build up a surplus of funds to be available for needed capital projects (including necessary repairs and alterations, and new construction);
- Charge agencies "rent" for the space they occupy, thereby encouraging them to be prudent about both the amount of space they require and the location of facilities; and
- Place these costs in agency budgets so that the true costs of agency programs could be more accurately reflected.

Although these objectives are valid, concerns have been expressed as to whether they are being met by the approach of the Federal Buildings Fund.

Even though the Fund generates a significant annual "profit" to be used on capital projects (approximately \$1 billion per year), GSA continues to claim that the Fund does not generate sufficient funds to pay for all capital projects GSA believes necessary. Agencies pay commercial-equivalent "rent," yet few reduce their budgets through improved space utilization or moving facilities to cheaper locations.

In addition, many agencies complain they are not getting appropriate levels of services from GSA. As the Fund is now structured, the Fund's income is not linked to the level of spending necessary to provide for its needs. Some argue that the Fund generates too much revenue; others hold that it generates too little.

OMB should—in consultation with Congress, GSA leadership, the agencies, and all interested parties—review the Fund's structure and operation in the context of these observations and recommend how the Fund can be made more effective or whether a new approach should be adopted.

**Question 5.** Legislation to eliminate GSA's Federal Building Fund (FBF) was introduced in the 102nd Congress. Would you support such legislation? What mechanism, if any, would you propose to replace the FBF?

**Answer.** The debates outlined in my response to the previous question have led some to conclude that the Fund is "broken," resulting in the introduction of the referenced legislation. It did not include an alternative approach, however; and before the Fund is eliminated, a carefully structured alternative system should be proposed.

Certain principles should constitute the foundation for any alternative proposal for housing Federal agencies:

- Federal employees should be housed in work-space that is of an appropriate level of quality;

- Government-owned facilities should receive routine repairs and alterations to ensure they retain their value as Federal assets;
- Agencies should pay rent based on actual costs to encourage cost-awareness in decisions on location and space needs; and
- Requests for new construction and acquisition should compete with all other requests for limited resources.

If confirmed, I would devote considerable attention to this question and seek counsel from GSA's leadership, the Congress, the agencies, and other interested parties before reaching any conclusions or advising OMB's Director as to any replacement for the FBF.

*Question 6.* How would you coordinate the disposition of property seized and forfeited, or otherwise obtained by various agencies of the government?

*Answer.* Currently, the management and disposal of seized and forfeited property is performed by individual agencies with little government-wide policy to guide their actions. It is my understanding that OMB does not necessarily believe that property disposal operations should be centralized within one agency since certain property-specific expertise is resident within the individual agencies (e.g., USDA plant and animal seizure and disposal). It seems appropriate that the respective agencies, OMB, and GSA jointly analyze which property disposition efforts could benefit from central policy and oversight.

*Question 7.* The government faces potentially enormous future liability from hazardous waste contamination at Federal sites. In June of last year, the Congressional Budget Office (CBO) reported that the government knows very little about the true cost of this cleanup. What are your views on how OMB can improve planning, through OMB Circular A-106 and otherwise, to more accurately plan for Federal facility environmental cleanup?

*Answer.* The clean-up of hazardous waste contamination at Federal facilities is an enormously complex and expensive undertaking that may take several hundred billion dollars and several decades to complete. Developing reliable estimates of future costs for hazardous waste clean-up is complicated by uncertainty about the degree of contamination at these sites and the clean-up standards that will have to be met. Also, the available technologies and the clean-up schedule will significantly affect project costs. Currently, I am aware of no reliable estimates for all Federal agencies for environmental clean-up.

The A-106 planning process, which since 1974 has required agencies to report to OMB annually through the Environmental Protection Agency (EPA) their plans to ensure compliance with environmental requirements, is focused primarily on resource estimates for the budget year rather than on estimates of total future costs. It is supplemented by other agency-specific planning mechanisms, such as the Department of Energy's Five-Year Plan for an annual up-date of DOE clean-up status and activities.

Although the focus of the A-106 process is to ensure that adequate funding is provided in the President's Budget for environmental compliance, it could be a more useful planning and budgeting tool with respect to out-year budget estimates. To this end, EPA and the agencies have taken steps over the past few years to improve the quality and completeness of project information reported in A-106 reports.

Also, last May, EPA and OMB reconvened the Federal Interagency A-106 Advisory Committee to provide a forum for agencies to discuss further improvements to the A-106 process. This forum has held meetings, but has not yet produced specific improvements.

## XVI. OTHER ISSUES

*Question 1.* In recent years, there has been a substantial increase in the number of presidential disaster declarations and a rise in Federal relief costs. Both GAO and the National Academy of Public Administration (NAPA) have recently recommended revitalizing the Federal Emergency Management Agency (FEMA) and improving government responses to catastrophic disasters.

a. What can the Federal government do to prepare for disasters and better manage and control costs?

b. What are your views on the appropriate role for FEMA and for approaches to improve the agency's effectiveness?

c. What will be your role, and that of OMB, in FEMA management and reorganization review?

*Answer.* FEMA Director Witt has stated in testimony before the House and Senate Subcommittees on Appropriations that FEMA will be as prepared as possible for any disasters that occur during this Administration. Building a strong emergency



management partnership with State and local agencies, private organizations, and other Federal agencies will be essential to achieving his objective.

Director Witt has expressly stated that establishing mitigation as a primary foundation of emergency management nationwide will decrease the demands of disaster response and recovery.

I concur with his recent testimony that, as constituted, FEMA's overall mission is to provide the leadership and support for a risk-based, all-hazards emergency management program which includes mitigation, preparedness, response and recovery. This means that each State, in cooperation with the Federal Government, should plan and prepare for the hazards—regardless of cause—that are most likely to occur in that State.

OMB will be involved in reviewing any restructuring or reorganization proposed for FEMA. The National Academy of Public Administration, the FEMA Inspector General, and the General Accounting Office, in addition to several internal FEMA reports, have provided the agency with numerous recommendations which merit consideration. If confirmed, I expect that OMB's Director would look to me for counsel on the management and organizational issues raised by criticisms of FEMA.

**Question 2.** The Federal government spends \$4 billion per year to heat, cool and light its buildings. While efforts have been made in the past to reduce this energy use, the Office of Technology Assessment has reported that as much as \$900 million a year is still wasted by not using currently available energy efficient goods and services. In an effort to remedy this situation, the 1992 Energy Policy Act contained provisions, authored by Senator Glenn, Chairman of the Governmental Affairs Committee, requiring reforms in Federal energy management, including an increased role for OMB.

a. What is your understanding of OMB's role under the 1992 Energy Policy Act with regard to Federal energy management, and the actions it has taken to fulfill those responsibilities?

b. What are your views on further steps that OMB could take to improve Federal energy management?

**Answer.** From what I understand, the OTA estimate may be optimistic, but I certainly agree that there is the potential for much greater energy conservation than has already been realized. Since 1985, the Federal Government has reduced by about 10 percent its use of energy per square foot of floorspace. The Energy Policy Act sets a year-2000 goal of a 20 percent reduction relative to 1985 usage.

In light of the progress to-date, I believe that the increased funding for energy efficiency improvements OMB proposed for FY 1994–FY 1998 will allow the Government to meet this goal. The energy conservation funding plans through 1998 amount to about two-and-one-half times the baseline level; and allocation among agencies is basically in proportion to their share of total Federal energy consumption, with special provisions for the DOE Federal Energy Management Program to increase its training and audit support to other agencies. Achieving this target would yield approximately \$400 million in annual savings relative to current costs.

The most important role for OMB to play in this regard is the vigilant monitoring of implementation of these energy efficiency improvements. As I understand it, OMB also has several specific responsibilities under the Energy Policy Act:

- In presenting the President's Budget, OMB is asked to identify specifically each agency's spending on facility energy costs;
- OMB is participating in inter-agency discussions with the Departments of Energy, Defense, and Treasury and the General Services Administration regarding implementation of a number of the Act's provisions, including studies of efficiency incentives and financing mechanisms for investments in facility energy efficiency;
- OMB must publish energy cost-accounting and reporting guidelines, developed in cooperation with the Departments of Energy and Defense, and the General Services Administration. These were due about the time this Administration took office, and OMB staff are engaging agency staff and new political appointees on these issues. The logical place for these guidelines to be published is probably in OMB's annual revision of Circular A-11, which is sent to all agencies to provide guidance on their budget requests and reporting.
- OFPP's Administrator is required to publish guidelines to encourage all agencies' acquisition and use of energy-efficient products identified by the Department of Defense and GSA, in coordination with the Energy Department.

OMB's revisions to Circular A-11 will ensure that every agency explicitly budgets for energy and conservation spending, and OMB staff will consult with DOE's Federal Energy Management Program about each agency's proposals. Each agency's budget will include an estimate of energy cost savings, which will be deducted from the agency's budget allowance for operations and maintenance. Thus, if the savings

are not achieved, the agency will have taken a net budget cut; if the savings surpass the projection, the agency can apply that sum to other operating expenses.

At many large Federal sites, many buildings' electricity or gas is measured by a single meter, making it difficult to assess the relative efficiency of individual facilities and the results of retrofits. OMB will encourage agencies to spend some of the proposed FY 1994 funds for improved metering.

In the traditional Fall budget examinations, OMB will also be asking each agency to explain the cost-effectiveness of its energy efficiency investments.

#### XVII. RELATION WITH CONGRESS

*Question 1.* Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

*Answer.* Yes.

*Question 2.* Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if confirmed?

*Answer.* Yes.







BOSTON PUBLIC LIBRARY



3 9999 05982 900 0



ISBN 0-16-044314-8

90000



9 780160 443145